SHIPBUILDING

OFFSHORE & ENGINEERING

INDUSTRIAL PLANT & ENGINEERING

# FRONTIERS OF **GROWTH**

GREEN ENERGY

Hyundai Heavy Industries **Annual Report 2010**

ENGINE & MACHINERY

ELECTRO ELECTRIC SYSTEMS

CONSTRUCTION EQUIPMENT

HYUNDAI
HEAVY INDUSTRIES CO., LTD.

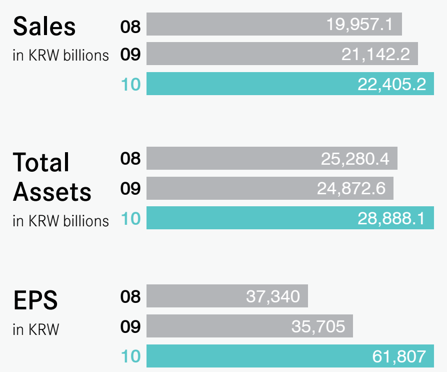
# Financial Highlights

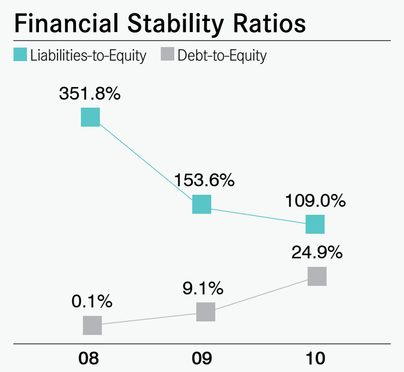
| Performance Overview | in USD millions 2010 | 2010 | 2009 | in KRW billions 2008 |
|---|---|---|---|---|
| **For the Year** | | | | |
| Sales | 19,672.7 | 22,405.2 | 21,142.2 | 19,957.1 |
| Gross Profit | 4,100.7 | 4,670.3 | 3,144.8 | 3,145.1 |
| Operating Income | 3,019.9 | 3,439.4 | 2,222.6 | 2,206.2 |
| Net Income | 3,302.4 | 3,761.1 | 2,146.5 | 2,256.7 |
| **At Year-End** | | | | |
| Total Assets | 25,364.9 | 28,888.1 | 24,872.6 | 25,280.4 |
| Total Liabilities | 13,231.3 | 15,069.1 | 15,064.2 | 19,685.2 |
| Total Debt | 3,026.9 | 3,447.3 | 889.6 | 3.3 |
| Total Shareholders' Equity | 12,133.6 | 13,819.0 | 9,808.4 | 5,595.2 |
| **Financial Indicators** | | | | |
| Liabilities-to-Equity | 109.0% | 109.0% | 153.6% | 351.8% |
| Debt-to-Equity | 24.9% | 24.9% | 9.1% | 0.1% |
| EPS in KRW | USD 54.27 | 61,807 | 35,705 | 37,340 |
| EBITDA | 3,452.1 | 3,931.6 | 2,668.2 | 2,597.0 |
| EV/EBITDA (multiple) | 9.3x | 9.3x | 5.0x | 4.9x |
| ROA | 14.0% | 14.0% | 8.6% | 10.7% |
| ROE | 31.8% | 31.8% | 27.9% | 40.9% |

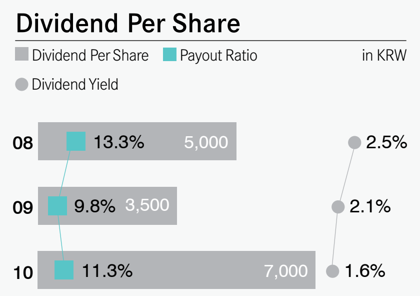
*Won amounts for FY2010 have been translated at KRW 1,138.90 per USD 1.00, the basic rate as of Dec. 31, 2010.
*EBITDA = Operating Income + Depreciation + Amortization
*EV = Total Market Capitalizaion + Net Debt
(Net Debt = Total Debt - Cash & Cash Equivalents - Short-term Financial Instruments - Short-term Investment Securities)

| Orders & Backlog | 2010 | 2009 | in USD millions 2008 |
|---|---|---|---|
| Orders | 17,209 | 10,735 | 27,473 |
| Backlog | 47,817 | 51,147 | 61,182 |

*The backlog above is on a delivery basis. Percentage-of-completion basis backlog was USD 31.7 bil. (2010), USD 37.9 bil. (2009), and USD 48.3 bil. (2008).



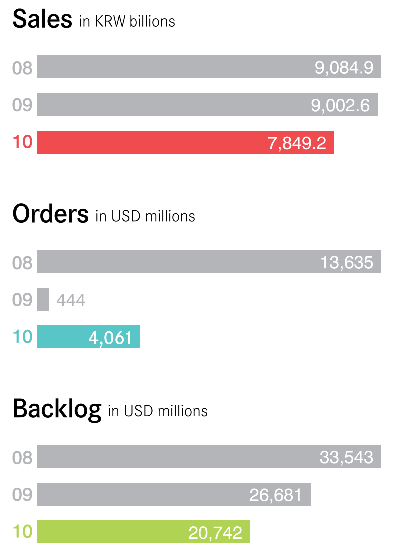




# HHI at a Glance

## Shipbuilding

Sales Growth **-12.8%**

Since 1983, we have held the distinction of being the world's No. 1 shipbuilder. We have delivered approximately 1,700 vessels to 255 shipowners in 47 countries to date. Today, the ten dry docks at our Ulsan and Gunsan yards build around 100 vessels a year for the shipping, energy transport and exploration, and naval markets.




### Major Products

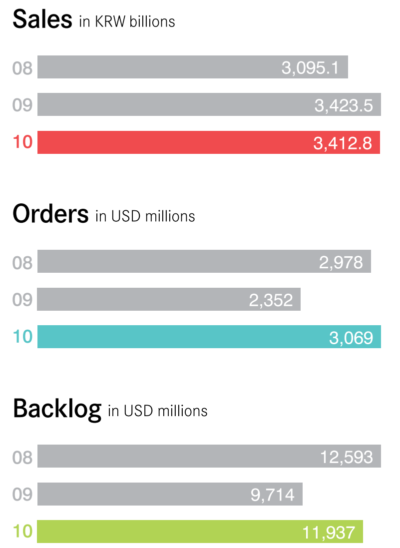
- VLCCs, Tankers, Product Carriers,
- Containerships, Bulk Carriers, OBO Carriers
- LNG Carriers, LPG Carriers, FSRUs
- Drillships
- Pure Car Carriers, Ro-Ro Ships, Ro-Pax Ships
- Submarines, Destroyers, Frigates

Proportion of Sales **35.0%**

## Offshore & Engineering

Sales Growth **-0.3%**

Since 1976, we have handled over 170 projects–including 97 turnkey EPIC contracts–in the fields of oil and gas field development and production facilities for more than 30 international clients. Boasting the 1-million-ton capacity H-Dock and two 1,600-ton gantry cranes, our Ulsan yard facilities greatly enhance our ability to win and build the world's largest floating offshore units.




### Major Products

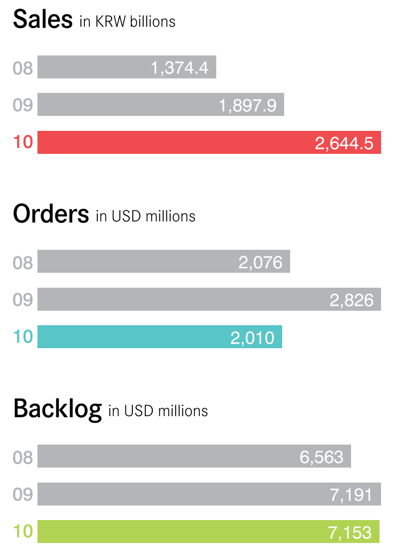
- Floating Units: FPSOs, FPUs, TLPs, Semi Submersible Units
- Fixed Platforms: Topsides, Jackets & Piles, Jack-ups, Modules & Quarters
- Pipelines & Subsea Facilities: Subsea Pipelines
- Offshore Installations: Platforms, Pipelines
- Onshore Installations: Oil & Gas Production and Processing Plants, Refineries, Tank Farms

Proportion of Sales **15.2%**

## Industrial Plant & Engineering

Sales Growth **+39.3%**

Since 1975, we have delivered a wide range of power, desalination, and process plant facilities to customers around the globe. Today, we are a global EPC contractor executing some of the industry's largest power and oil and gas projects to date in the Middle East and Africa regions, including the Riyadh PP11 1,729 MW combined-cycle power plant in Riyadh, Saudi Arabia.




### Major Products

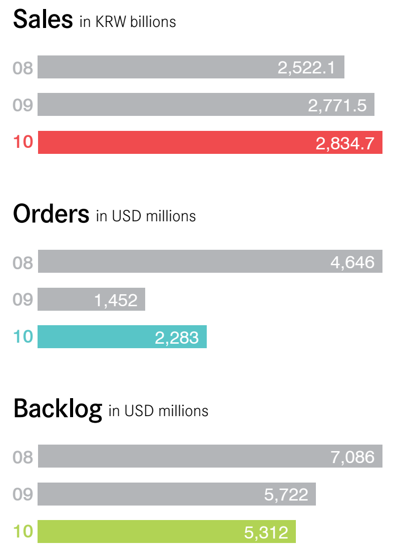
- Power Plants: Combined-Cycle, Cogeneration, and Thermal Power Plants
- Process Plants: Oil & Gas, Refinery, Tank Farm, GTL, and LNG Facilities

Proportion of Sales **11.8%**

## Engine & Machinery

Sales Growth **+2.3%**

Since 1979, we have established ourselves as the world's No. 1 producer of two-stroke marine diesel engines with 35% of the market and over 100 million bhp produced to date. Today, we produce state-of-the-art engines for the marine and power generation industries as well as a wide range of industrial equipment for the shipbuilding, steelmaking, automobile, and semiconductor industries.




### Major Products

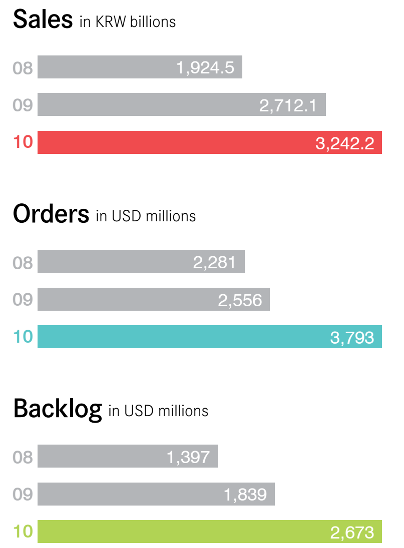
- Two- and Four-Stoke Diesel Marine Engines
- HiMSEN Diesel Engines
- Propellers and Crankshafts
- Diesel and Gas Power Plant Engines
- Industrial and Marine Pumps
- Ballast Water Management Systems
- Marine Thrusters
- Industrial Robots

Proportion of Sales **12.6%**

## Electro Electric Systems

Sales Growth **+19.5%**

Since 1977, we have established ourselves as a world-class manufacturer of electrical systems for power generation, transmission, and distribution that are second to none. Today, we are an emerging global player in the solar and wind power fields with state-of-the-art manufacturing capabilities. We are also focusing on providing turnkey solutions for tomorrow's energy markets.




### Major Products

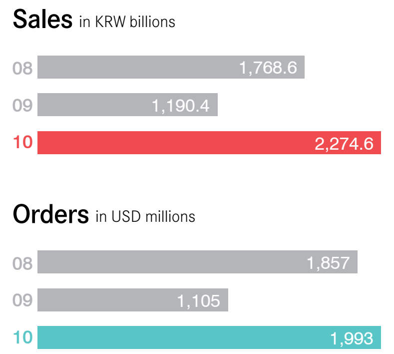
- Transformers
- Gas Insulated Switchgear
- Switchgear
- Low- and Medium-Voltage Circuit Breakers
- Rotating Machinery
- Power Electronics and Control Systems
- Wind Power Systems
- Solar Power Systems

Proportion of Sales **14.5%**

## Construction Equipment

Sales Growth **+91.1%**

Since 1985, we have been delivering quality construction equipment and industrial vehicles to customers around the world. Today, our state-of-the-art automated manufacturing facilities in Korea, China, and India produce equipment that is sold and serviced through a global network of over 470 dealers in some 120 countries worldwide.




### Major Products

- Excavators
- Wheel Loaders
- Forklifts
- Skid Loaders

Proportion of Sales **10.2%**

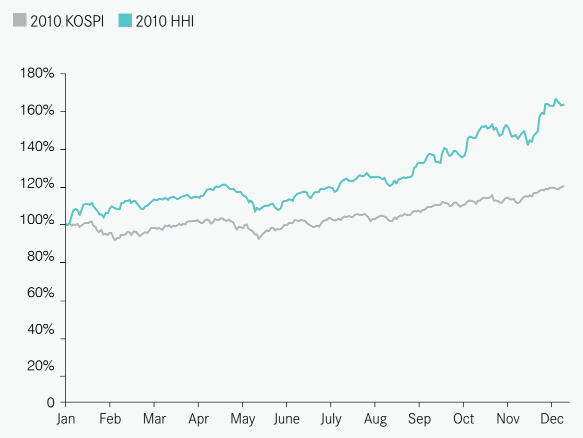
# Share Performance

## Commentary

Korea's benchmark KOSPI index delivered a strong performance in 2010, hitting its low in the first half and high in the second as it closed the year up 22% at 2,051 points. In the first half of the year, concerns about inflation due to excessive liquidity triggered interest rate hikes in China and other global markets. As the specter of financial crises in the PIIGS–Portugal, Ireland, Greece, and Spain–loomed, the KOSPI fell, fluctuating between 1,550 and 1,750 points. In the second half of the year, recovering corporate profits and growing expectations for a US economic recovery together with the US's quantitative easing policy attracted foreign capital to Korea, helping the KOSPI recover to close the year just above the 2,000-point mark. Foreign investors followed up their 2009 KRW 30 trillion buying spree with another KRW 21 trillion in net purchases for the year. In contrast, domestic investors showed a strong preference for safer assets, with institutional investors net selling KRW 12.4 trillion in fund holdings.

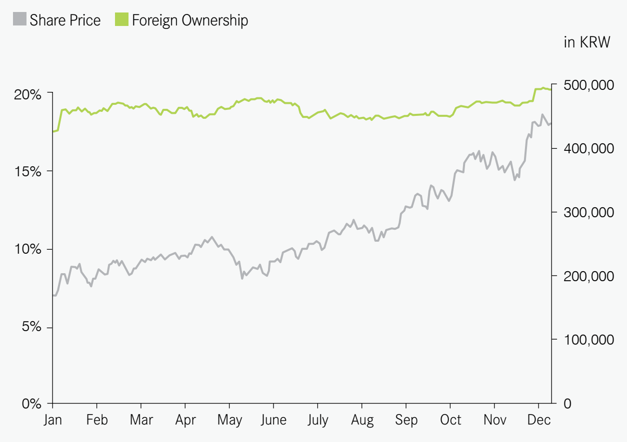
In 2010, our share price rose over 150% from its level early in the year, outperforming the market as the prospects of a shipbuilding recovery materialized. This growth was also considerably stronger than that of our peers, bolstered by our diversified business portfolio that continued to grow even as shipbuilding sales declined.

### 2010 HHI Share Performance vs. KOSPI




| Stock Facts | 2010 | 2009 | 2008 |
|---|---|---|---|
| Face Value in KRW | 5,000 | 5,000 | 5,000 |
| Number of Shares Issued | 76,000,000 | 76,000,000 | 76,000,000 |
| Total Market Capitalization | | | |
| in KRW billions | 33,668 | 13,186 | 15,162 |
| Share Price - High in KRW | 456,500 | 250,000 | 438,000 |
| - Low in KRW | 171,000 | 148,500 | 115,500 |
| - End in KRW | 443,000 | 173,500 | 199,500 |
| Foreign Ownership | 20.2% | 17.4% | 14.8% |
| PER - High/Low | 7.4x / 2.8x/ 7.2x | 7.0x / 4.2x / 4.9x | 11.7x / 3.1x / 5.3x |
| Dividend Per Share in KRW | 7,000 | 3,500 | 5,000 |
| Payout Ratio | 11.3% | 9.8% | 13.3% |

### 2010 HHI Foreign Ownership & Share Price




### Shareholder Structure


| | Shareholder | Ownership |
|---|---|---|
| 1 | Chung Mong-joon | 10.80% |
| 2 | Hyundai Mipo Dockyard | 7.98% |
| 3 | KCC | 6.72% |
| 4 | Mirae Asset Global Investments | 4.27% |
| 5 | National Pension Service | 3.68% |
| 6 | Hyundai Motor Company | 2.88% |
| 7 | Asan Foundation | 2.53% |
| 8 | Posco | 1.94% |
| 9 | Treasury Shares | 19.36% |
| 10 | Others | 39.84% |

# Frontiers of **Growth**

At Hyundai Heavy Industries, we believe in pushing the boundaries of technology to create the world's best products. Over the nearly four decades we have been in business, our entrepreneurial spirit has enabled us to emerge as a global player in a growing number of fields beyond shipbuilding. Today, we continue to innovate across a wide spectrum of businesses and industries as we explore new frontiers of growth around the globe.

# Our Growth is Deep & Wide ▶

The oceans are a vast resource that both divides and connects us. At Hyundai Heavy Industries, our leadership in shipbuilding and offshore engineering is enabling the world to bring more opportunities and energy to life.

# 12 km deep

## Deepwater Champion Drillship

The world's oceans are the new frontier of oil and gas exploration. And drillships like the Deepwater Champion are the ultimate way to search them. Delivered in September 2010, this high-tech vessel ordered by Transocean is capable of drilling up to 12 kilometers in up to 3.6 kilometers of water. Today, it is prospecting for ExxonMobil in the Black Sea, helping Turkey develop its offshore energy resources.


## Gunsan shipyard investment

### KRW 1.2 trillion

Officially completed in March 2010, our new Gunsan shipyard covers 1.8 million sqm and is capable of building 24 ships annually at its 1.3 million dwt dry dock. The yard successfully delivered its first ships in March 2010.

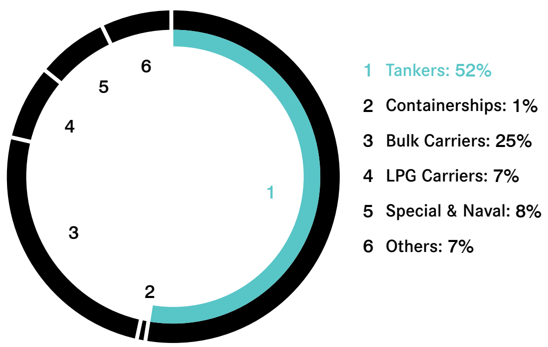
## Containership delivery milestone

### 13,100 TEU

In July, we delivered our first 13,100 TEU containership to Rickmers of Germany. We delivered three more sister ships during the year, and four more are scheduled for delivery in 2011.

# Shipbuilding Division

At Hyundai Heavy Industries, we build some of the world's most advanced ships. Our most recent drillship–Deepwater Champion–is a prime example. Capable of drilling up to 12 kilometers in depths of up to 3.6 kilometers, this state-of-the-art drillship is equipped with the most advanced positioning and automated control systems to keep drilling operations running smoothly in even rough seas.




2010 Order Breakdown
by Value

Sales
in KRW billions


Orders
in USD millions


## 2010 Overview

The global shipbuilding industry delivered significantly higher growth than expected as a rapid global economic recovery spurred growing demand for ocean shipping. Container shipping rates in particular recovered faster than expected, producing a boost in containership orders in the second-half of the year. After bottoming out in the first half of the year, vessel prices rose 5% to 10% on average. According to Lloyd's Register, the industry booked orders of 78 million gross tons (mgt) in 2010, more than double the 2009 total. Bulk carriers accounted for more than half the amount, and orders for large tankers also increased. While Chinese shipbuilders enjoyed growth due to captive domestic demand, lower vessel prices, and financial support from state-run banks, Korean shipbuilders continued to lead in high-value vessel categories such as containerships, large crude oil tankers, and specialty vessels.

## 2010 Review

In 2010, we booked orders for 55 vessels totaling USD 4 billion–an 815% increase–as we delivered 75 vessels for sales of KRW 7.8 trillion. Our Gunsan shipyard delivered its first 180,000-dwt bulk carrier in March 2010, the first of ten for the year. We also demonstrated our technical prowess in the special vessel field once again by delivering the Deepwater Champion drillship. This state-of-the-art vessel features a compact design, low fuel consumption, and a patented thruster canister design that allows on-site maintenance. At year-end, our orderbook of 200 vessels was worth USD 20.7 billion.

## 2011 Outlook

The stable growth outlook for the global economy in 2011 is expected to spur growth in the ocean shipping and shipbuilding industries. The one factor that might dampen this outlook is the large number of vessels still on orderbooks across the industry. While this could conceivably lead to a downturn in tanker and bulk carrier orders, investment in containerships is expected to continue. Demand for drillships is projected to grow due to high oil prices, demand from the Brazilian market, and tighter regulation of aging offshore facilities in the wake of the oil rig disaster in the Gulf of Mexico. Demand for LNG carriers for delayed projects in Nigeria is also expected to rise, as is demand for shuttle tankers, large LPG carriers, and auto carriers.

We are targeting orders of USD 7.4 billion in 2011 as we work to maintain a solid two-year production backlog. We expect to deliver 110 vessels worth KRW 9.4 trillion. Our primary focus will continue to be on containerships, an area in which we are highly competitive. We aim to expand sales of special vessels, leveraging the successful delivery of the Deepwater Champion drillship last year and our acclaimed design capabilities to make inroads into the drillship market. We believe that our ongoing efforts to improve productivity and cut costs will enable us to maintain and sharpen our industry leading profitability in 2011. We also look forward to setting another milestone for the global shipbuilding industry when we become the first shipbuilder to surpass the 100 mgt production milestone in the first half of the year.

**Gunsan Shipyard**
In March 2010, we officially completed our new Gunsan shipyard on Korea's west coast. This state-of-the-art yard covers 1.8 million square meters and features a 1.3 million dwt dry dock that is the world's largest. The yard delivered its first ships in March 2010.

**Abdelkader LNG Carrier**
In February 2010, we delivered the 177,000-cum Atlantic Max LNG carrier to Mitsui OSK Lines of Japan. The tri-fuel diesel-electric propulsion system is capable of burning natural or forced boil-off gas, marine diesel oil, or heavy fuel oil. The vessel sails under a long-term charter for the ExxonMobil-led Papua New Guinea LNG project, supplying LNG mainly to Japan.

## Myanmar Shwe gas project

# USD 1.4 billion

In February 2010, we signed a turnkey agreement for the Shwe gas production and processing platform project in Myanmar. Scheduled for completion by March 2013, the EPC project includes a 40,000-ton offshore gas platform, subsea facilities, and onshore terminal.

## Thai Gas Spur Lines project

# USD 71 million

In October 2010, we won an EPC order from PTT Exploration & Production of Thailand for two spur lines totaling more than 70 km to connect the PTT Third Transmission Pipeline to the Platong 2 and Great Bongkot South production platforms.

# 2 mmbbl of storage

## Usan FPSO

The world's oceans hold untold reserves of oil and gas. And floating production and offloading vessels like the Usan FPSO are the ultimate way to develop them. Scheduled for delivery in April 2011, this ultra-large vessel ordered by Total E&P Nigeria Limited (TEPNG) in February 2008 has a crude oil storage capacity of 2 mmbbl and will be stationed in waters about 100 km southeast of Bonny Island, Nigeria.

# Offshore & Engineering Division

At Hyundai Heavy Industries, we build some of the world's most advanced offshore facilities. The Usan FPSO for Total E&P Nigeria Limited is a prime example of why we are No.1 in this vessel category. Scheduled to begin production in early 2012, Usan is capable of processing 160,000 bopd and 5 mmscmd. It is our ninth new-build FPSO to date with a capacity of 2 mmbbl or more.

**North Rankin B Topsides** The North Rankin-2 (NR2) project for Woodside Energy of Australia is designed to recover the remaining low pressure gas from the North Rankin and Pegasus gas fields off the northwest coast of Western Australia. The 29,000-ton North Rankin B topsides are scheduled for sail-away in December 2011.

**Goliat FPSO** In February 2010, we won the USD 1.1 billion Goliat FPSO EPC project from Eni Norge of Norway. The world's largest cylindrical FPSO to date, the Goliat will have an oil production capacity of 110,000 bopd, a gas production of 3.9 mmscmd, and an oil storage capacity of 1 mmbbl. It is scheduled to begin production in the Barents Sea off the northern coast of Norway in 2013.

## 2010 Overview

The recovery of the global economy in 2010 led to greater demand and higher prices for oil, spurring recovery in the offshore oil and gas exploration field, a sector that had seen a number of projects either delayed or cancelled in the wake of the global financial crisis. According to Douglas-Westwood, approximately 33% of global oil production was from offshore fields in 2010, a figure that is projected to rise to 35% by 2020. Accounting for just 3% of total production in 2002 and 6% in 2007, deepwater offshore production is on track to reach 10% by 2012 as investment pours into this field. Industry capex investment currently totals USD 250 billion annually, a figure that is forecast to rise roughly 10% annually through 2013.

## 2010 Review

In 2010, we booked orders of USD 3.07 billion and sales of just over KRW 3.4 trillion. Balanced between fabrication and installation, the year's orders included the USD 1.1 billion Goliat FPSO–the world's largest cylindrical FPSO to date–from Eni Norge of Norway, the USD 1.4 billion turnkey Shwe gas platform project in Myanmar, and four pipeline projects. Coming on the heels of our groundbreaking win of modules for Australia's Barrow Island LNG plant in 2009, these projects moved us steadily closer toward our goal of operating in all segments of the offshore and onshore facilities industry.

## 2011 Outlook

Rising demand, lower crude inventories, abundant liquidity, and a weakening US dollar all point to higher international crude oil prices in 2011. These factors, combined with the current ongoing political unrest across the Middle East and limited OPEC reserve capacity, indicate the likelihood of oil prices rising well above USD 100 per barrel.

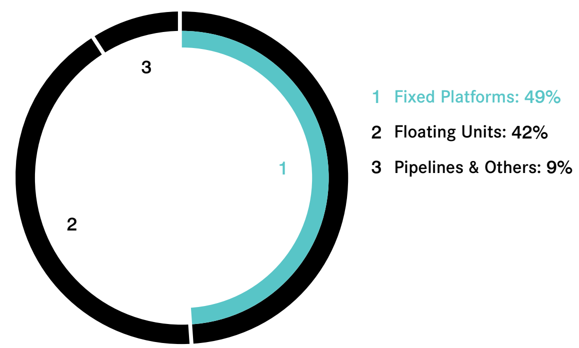
As global demand for energy continues to rise, the pace of deepwater energy development will naturally increase. The top-five global majors plan to invest USD 128 billion in 2011, returning investment to its pre-crisis level. Floaters such as FPSOs and, over the longer term, floating LNG (FLNG) units are projected to be in demand in Australia, Africa and Latin America. Petrobras of Brazil has announced ambitious plans that call for an investment of USD 174 billion through 2013 to add dozens of new drilling rigs, floaters, and platforms through 2018. While the opportunities for growth are significant, there are also emerging challenges. Oil producing countries like Brazil, Nigeria, and Angola are becoming increasingly assertive in requiring local fabrication. Other countries such as China, Indonesia, and Malaysia are also adding local content and local contractor requirements to their tenders.

Looking forward, the key drivers of sales and profitability will be integrated onshore and offshore projects as well as onshore oil and gas processing and storage facilities for upstream oil and gas plant projects focusing on Australia, Africa, and the Middle East. In 2011, we are aiming for orders of USD 4.8 billion balanced between our fixed platform, floating unit, and subsea pipeline businesses. We will also be progressively expanding into promising new markets such as onshore plant LNG module fabrication and FLNG units, developing new products, and partnering with local production yards around the world to satisfy local content requirements.



**Sales**
in KRW billions


**Orders**
in USD millions


**2010 Order Breakdown**
by Value

# Our Growth is Strong & Resilient ▶

The earth is a vast resource that we must develop wisely and sustainably.
At Hyundai Heavy Industries, our balanced and diversified portfolio of businesses is helping the world build the infrastructure essential to sustainable growth.

## Saudi Arabia IPP project

### USD 1.6 billion

In June 2010, we won an EPC project from Dhuruma Electricity Company to build the Riyadh PP11 1,729 MW gas-fired combined-cycle power plant. The plant is scheduled to come on-line by 2013.

## ITER vacuum vessel project

### USD 119 million

In January 2010, we signed an MoU with Korea's National Fusion Research Institute to provide two vacuum vessels and 35 ports for the ITER fusion energy project in France. Deliveries are expected to begin at the end of 2016.

### 140,000 bbl/day

## Pearl GTL Project

Gas-to-liquids projects like Qatar Petroleum and Shell's Pearl GTL in Qatar are the ultimate way to turn natural gas into cleaner-burning fuels. In March 2011, we completed the EPC feed-gas preparation facilities for the first train. When the second train comes online in late 2011, the project will produce 140,000 bbl/d of clean liquid products, including naphtha and low-sulfur diesel.

# Industrial Plant & Engineering Division

At Hyundai Heavy Industries, we build some of the world's most advanced industrial plant facilities. The Al Dur independent power plant project commissioned by Bahrain's Ministry of Finance is a prime example. Scheduled for completion in June 2011, this EPC build-own-operate plant will generate 1,234 MW of power and over 218,000 cum/d of water to meet the growing needs of the kingdom.

**Mina Al Ahmadi Oil Terminal Project**
In June 2010, we wrapped up major work on the USD 699 million onshore portion on this USD 1.25 billion terminal expansion project. Won from Kuwait Oil Company back in 2005, the project increases the terminal's capacity by 1 mmbopd to 3 mmbopd.

**Riyadh PP11 IPP Project**
In June 2010, we won a USD 1.6 billion EPC contract with Dhuruma Electricity Company of Saudi Arabia to build a 1,729 MW gas-fired combined-cycle power plant to help meet the kingdom's long-term power requirements. The plant is scheduled to begin operations in 2013.

## 2010 Overview

The Middle Eastern power plant market continued to tender both EPC and independent power projects in 2010, with Saudi Arabia and Kuwait leading the way. In contrast, the region's oil and gas plant market experienced a decline in major tender activity following the award of the USD 1 billion Das Island gas processing facility project in Abu Dhabi in mid-2009. This downturn in demand, combined with an influx of new competitors into the market, made an already intensely competitive environment even more challenging in 2010. That said, stable oil prices during the year allowed a number of plant projects that had been on hold to move forward.

## 2010 Review

Although orders fell 29% to USD 2.0 billion in 2010 due largely to a lack of oil and gas plant orders, revenues rose 39.3% to KRW 2.6 trillion as we continued to make progress on our multi-year orderbook. In the power plant segment, we won the USD 1.6 billion Riyadh PP11 independent power project from the Dhuruma Electricity Company of Saudi Arabia. This major EPC project includes a 1,729 MW gas-fired combined-cycle power plant scheduled for completion in 2013. In the equipment segment, orders for specialty and high-precision products for projects such as the ITER fusion reactor in France rose 11% for the year, generating USD 264 million of the total.

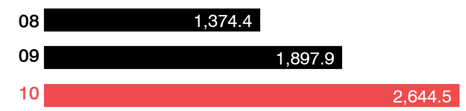
## 2011 Outlook

Faced by rapidly growing demand for power, the Middle Eastern power plant market is increasingly tendering large-scale plant projects. Privately-financed projects are gaining momentum as a way to meet the financial challenges of these major tenders. The oil and gas plant market is also primed for growth as rising oil prices set the stage for new investment in the segment. That said, there are a number of formidable challenges ahead. The oil majors are requiring EPC contractors to meet increasingly strict health, safety, and environmental standards. Project owners are also requiring higher local content and participation ratios to bolster local industries.

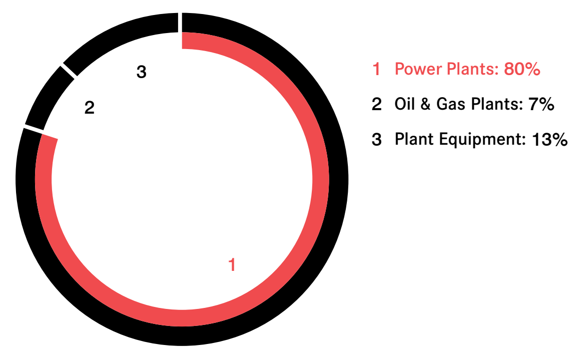
As a respected EPC player in the Middle Eastern industrial plant market, we are well positioned to benefit from the current market trends. In 2011, we are aiming for orders of USD 3.8 billion and sales of KRW 3.0 trillion. In the power plant segment, we will be targeting combined-cycle power projects with a focus on the six GCC nations. We will also be pursuing combined-cycle and thermal power projects in major markets across Africa, Latin America, and Asia.

In the oil and gas plant segment, we will continue to forge strategic partnerships with engineering firms to increase our odds of success as we bolster sales efforts in traditional markets such as the Middle East and Nigeria–a resurgent market in which we have extensive experience. We will target new industrial facility projects in our home market of Korea as well as Latin America and Central Asia. We also plan to expand into the petrochemical and LNG plant fields, as well as specialty fields such as major equipment for nuclear power plants. In all of the above cases, our extensive onshore and offshore expertise will give us a distinct competitive advantage on projects that have a mixture of onshore and offshore components.

**Sales**
in KRW billions




**Orders**
in USD millions


**2010 Order Breakdown**
by Value

# 100 million bhp

## Two-Stroke Engine Production Milestone

The world moves over 90% of international cargo by ocean today. And two-stroke engines like the Hyundai-MAN B&W and Hyundai-Wärtsilä are the ultimate way to power them. On September 29, 2010 just over 31 years after we delivered our first marine diesel engine in June 1979, we surpassed the 100 million bhp cumulative production milestone as we started up our 3,369th and 3,370th engines. Today, we have a 30 million bhp lead and growing over our closest competitor.

## Venezuela PPS order

### USD 160 million

In April 2010, we won an order for 120 Packaged Power Station (PPS) containerized diesel generating sets from Electricidad de Caracas. The generators are now providing power to 200,000 households in Venezuela's Moron and Guacara regions.

## Four-stroke engine milestone

### 20 million bhp

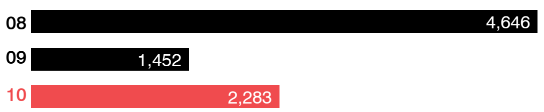
In March 2010, we surpassed the 20 million bhp four-stroke engine production milestone with the testing of our 9,089th engine. We currently hold a 25% market share in this engine category.

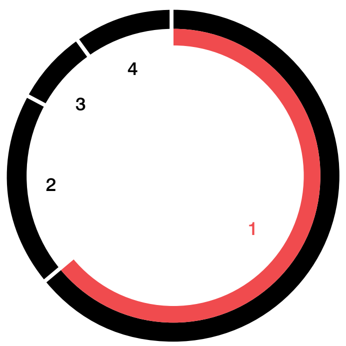
# Engine & Machinery Division

At Hyundai Heavy Industries, we build some of the world's most powerful engines. The massive two-stroke marine engines that power our ships are a prime example. While it took us 13 years to reach the 10 million bhp production milestone, we now deliver over 10 million bhp annually. The world's No. 1 maker, we have delivered 10 million bhp annually since 2005, surpassing the 100 million bhp milestone in 2010.


**Sales**
in KRW billions


**Orders**
in USD millions




1 Marine Engines: 64%
2 Power Plant Engines: 19%
3 Industrial Pumps: 7%
4 Robotic Systems & Others: 10%

**2010 Order Breakdown**
by Value

## 2010 Overview

The global marine engine industry benefitted from rising demand for newbuild vessels as the global economy continued to recover. Lower vessel prices also spurred orders for short-lead-time deliveries. Demand from China was the exception to this upward trend due to rising local capacity as well as national policies favoring locally-built engines.

The power plant engine industry also benefitted from global economic recovery as demand from both national and independent power utilities grew. In the machinery sector, demand for industrial pumps continued to grow primarily due to power and desalination projects in the Middle East. Demand for robotic systems also rebounded as investment in the auto and LCD sectors picked up.

## 2010 Review

Steady recovery in the marine engine market and growth in the power plant engine market helped boost orders 57% to nearly USD 2.3 billion in 2010. Orders for marine engines from other Korean shipbuilders grew 20%. Orders from Chinese shipbuilders for short-lead-time deliveries or complete knock-down production rose 93%. We continued to lead the global two-stroke engine segment with a 35% share worldwide and 47% share in Korea as we surpassed the 100 million bhp production milestone.

Our power plant engine business generated order growth of 174% as we won major projects in Ecuador, Venezuela, and Bangladesh and captured our first nuclear power plant emergency backup generator order. As HiMSEN engine orders surpassed 5,900 units, we also launched the H35G high-output gas engine that is considerably cleaner and greener than its diesel equivalents.

Our machinery business posted its best performance to date as orders rose 51%, making us a major industrial pump player in the Korean marine pump market as well as the global power and desalination plant markets. We also won orders for over 3,200 industrial robots from manufacturers in Russia, China, and Korea.

## 2011 Outlook

Demand for marine engines is poised to rise as Asia's emerging shipyards win new vessel orders. In the power plant engine field, we expect demand for our Packaged Power Station containerized diesel generating sets to continue to grow in markets such as Panama, Mexico, Brazil, Iran, and Syria. We also expect orders for ballast water management systems, industrial pumps, and robots to be robust.

Our order target for 2011 is USD 3.2 billion. On the engine side, we will be targeting short-lead-time and complete knock-down marine engine orders as well as opportunities in the LNG gas and high-output diesel power plant engine markets. On the machinery side, we will be focusing on new and replacement sales in the industrial robot market.

**Four-Stroke Engine Milestone** In March 2010, we set a world record by surpassing the 20 million bhp cumulative production milestone for four-stroke engines in just under 20 years. We have the ability to build over 1,800 four-stroke engines ranging from 600 to 13,000 bhp annually, accounting for roughly 25% of global demand in 2009.

**HiMSEN H35G Gas Engine** In May 2010, we unveiled Korea's first high-output gas engine. In addition to advanced lean-burn technology for superior fuel efficiency, the eco-friendly H35G produces 13,000 bhp while generating 20% less $CO_2$ and 97% less $NO_x$ over comparable diesel engines.

## US transformer contract

## USD 600 million

In May 2010, we signed a ten-year USD 600 million contact to supply Southern California Edison with transformers ranging in capacity from 230 kV to 500 kV through 2019. We now have a 40% market share for high-voltage transformers in North America.

## UK transformer contract

## USD 113 million

In December 2010, we signed a five-year USD 113 million contract to supply the National Grid of the UK with 400 kV transformers from 2012 through 2016. This contract made us the first Korean transformer maker to surpass USD 1 billion in overseas sales.

## 700,000 MVA

### Transformer Production Milestone

The world's appetite for power is growing day by day. And transformers like these 500 kV units are the ultimate way to deliver it. We now produce a full lineup of transformers from 200 kV to 800 kV at a 120,000 MVA facility–the world's largest of its kind–in Ulsan, Korea and a 5,000 MVA facility in Sofia, Bulgaria. We are now building a 14,000 MVA facility in Montgomery, Alabama in the US that is scheduled to begin production by early 2012.

# Electro Electric Systems Division

At Hyundai Heavy Industries, we build some of the world's most advanced power distribution equipment. Our 800 kV gas-insulated switchgear (GIS) that we began deliveries of back in 2000 is a prime example. We are a pioneer in GIS technology, delivering a wide range of solutions to meet the needs of today's ultra-high-voltage substations.

**US Transformer Plant** In July 2010, we broke ground for Hyundai Power Transformers USA, our first US transformer production facility. Located in Montgomery, Alabama, the USD 90 million plant will have an annual capacity of 14,000 MVA when it comes online by early 2012, producing transformers of up to 765 kV.

**TPRS Transformers** In 2006, we developed the world's first transformer equipped with a tank pressure relief system (TPRS). When standard transformers experience abnormal voltage due to a lightning strike or switching surge, the rapid change in pressure often leads to an explosion. TPRS provides a passive relief mechanism that helps prevent the rupture of insulation-oil tanks.

## 2010 Overview

The global electrical equipment industry experienced an overall downturn in demand in 2010 as a sluggish economic recovery in the US and financial instability in southern Europe led to a slowdown in infrastructure investment. The market was driven primarily by firm demand for replacement equipment in the US as well as power infrastructure expansion projects in fast-growing emerging markets in the Middle East, Brazil, and India.

## 2010 Review

Orders rose 48.4% to nearly USD 3.79 billion, nearly 20% of which came from our solar and wind businesses. All businesses enjoyed solid growth, led by transformers (+35%), circuit breakers (+57%), switchgear (+24%), rotating machinery (+4%), and photovoltaic systems (+182%). Our fledgling wind business also got off to a strong start with orders of USD 183 million in its first full year in operation.

In the US, our ability to forecast the replacement equipment requirements of existing customers combined with strategic capacity expansion to ensure fast delivery enabled us to be highly competitive and win new orders. As economic recovery continued to drive infrastructure investment in the Middle East and emerging markets, we executed an aggressive marketing strategy to increase our market share, making rapid market penetration a top priority.

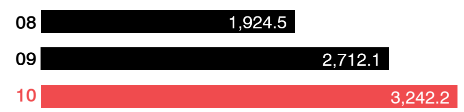
We recorded a number of major achievements in 2010. We surpassed the 700,000 MVA transformer shipment milestone. Our 145 kV gas-insulated switchgear and marine ring main unit won the "World Class Product of Korea" designation in recognition of their global top-5 market share. We broke ground for a 14,000 MVA transformer plant in the US. We signed of a USD 700 million EPC contract with Matinee Energy to build two solar power plants in the US. We also signed an MoU with Saint-Gobain of France to build a 100 MW CIGS thin-film solar module plant in Korea. Last, but not least, we completed a 600 MW capacity wind turbine assembly facility in Korea as we prepared for growth in the renewable energy field.

## 2011 Outlook

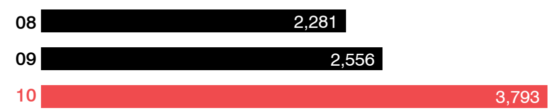
The market for electrical equipment is expected to be flat in developed markets such as North America and Europe in 2011. In emerging markets in Asia and Latin America, steadily rising infrastructure investment is expected to drive demand, with India and Brazil leading the way. In the Middle East, rising demand for power and water will drive expansion of desalination, power, and related infrastructure projects. Across the board, price competition is expected to intensify as market leaders seek to protect their lead and new competitors enter the market.

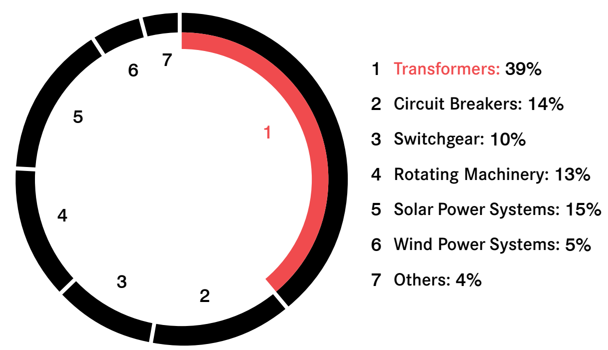
In 2011, we are targeting orders of USD 3.7 billion and sales of KRW 3.4 trillion, excluding wind and solar, which will be spun off into the new Green Energy division. Dramatically strengthened by our 2010 acquisition of Hyundai Corporation, our expanded global sales network and growing overseas production capability in strategic markets such as the US and India is setting the stage for greater synergy in the coming years.

**Sales**
in KRW billions




**Orders**
in USD millions




**2010 Order Breakdown**
by Value

## China wheel loader factory

### USD 48 million

In July 2010, we broke ground for a USD 48 million wheel loader factory in Tai'an, Shandong province. Scheduled for completion in May 2011, the factory will initially produce 8,000 3- and 5-ton loaders annually.

## 9-series wheel loaders

### +13% fuel efficiency

In May 2010, we launched six new 9-series wheel loader models. Key features include an eco-friendly Tier 3 engine and an advanced load sensing system helps improve fuel efficiency up to 13% by automatically adjusting the fuel mixture based on load weight.

# USD 2.9 billion

## Record Construction Equipment Orders

The world economy depends on construction and resource development to provide the foundations for growth. And construction equipment like our R480LC-9 series excavators are the ultimate way to ensure those foundations are solid ones. In 2010, we booked over USD 2.9 billion in equipment orders for the first time as we grew sales by 73% in China, 222% in Brazil, and 509% in Russia.

# Construction Equipment Division

At Hyundai Heavy Industries, we build some of the world's most advanced construction equipment. The cutting-edge technology that goes into our machines is a major differentiator. In 2010, we continued to improve the operating and fuel efficiency of our excavators. We also launched an electric model during the year, and are preparing to launch hybrid diesel-electric models in 2011.

**HL770-9 Wheel Loader** Launched in May 2010, this new 9-series wheel loader is equipped with a powerful-but-efficient Tier 3 engine paired with an intelligent load sensing system that continuously adjusts fuel injection based on the load, decreasing fuel consumption by 13%.

**Hi-Mate Remote Management System** A standard feature on all 9-series construction equipment, the Hi-mate remote management system enables owners to monitor the location and operating status of their investments from anywhere in the world using Internet and GPS technology.

## 2010 Overview

The global construction equipment market enjoyed significantly higher growth in 2010 as emerging markets in China, India, Latin America, and Southeast Asia saw robust economic growth and governments around the world continued to invest in infrastructure. Excavator demand in China rose 75%, supported by economic stimulus programs, major infrastructure projects such as the Great Western Development Strategy, and growing investment in construction, making it by far the world's largest market for construction equipment. The Korean market also saw brisk growth of about 10% for the year, driven primarily by major national projects. While North America, Europe, and other developed markets also showed signs of recovery, it may be a while before demand returns to pre-crisis levels, making China, India, and other emerging markets even more crucial to the continued growth of the industry.

## 2010 Review

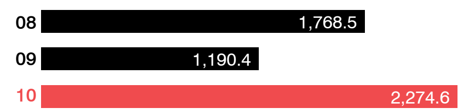
In 2010, consolidated sales rose 65% to USD 2.9 billion. Virtually all geographic markets–and emerging markets in particular–enjoyed significant gains due to economic stimulus policies. We continued to deliver strong growth in emerging markets in India, the Middle East, South America, Russia, and Asia, with sales gains exceeding 100%. In China, excavator sales rose over 70% as rapid growth pushed our market share above 11%.

## 2011 Outlook

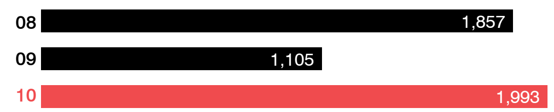
We expect the global construction equipment market to continue to grow in 2011, with emerging markets leading the way. In China, railway construction and mine development look to spur growth in the construction equipment segment. In India, demand will be driven by accelerating investment in roads, ports, and other infrastructure projects. Growth is also expected to be robust in Brazil, Russia, and other emerging markets due to expanding investment in resource development and infrastructure.

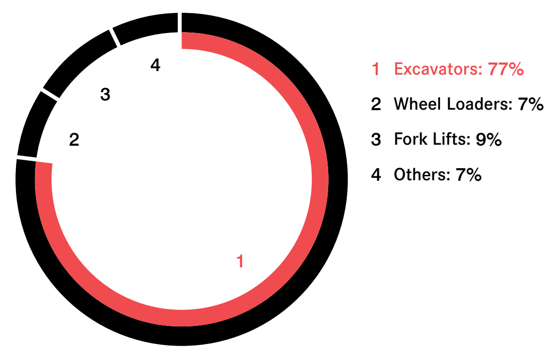
Given the favorable market outlook for 2011, we have set an aggressive order target of USD 4.0 billion. We are in the process of upgrading our sales organization and formulating a comprehensive marketing strategy to ensure a successful entrance into this new market segment. Globally, we will continue to target strategic markets by increasing financial support, expanding our sales network, and delivering 9-series models tailored to meet local needs. We will also continue to improve customer satisfaction by improving our pre- and post-sale service, leveraging our high-tech Hi-mate remote management system to help equipment owners ensure their investment is properly protected and maintained. In the first half of the year, we will enter the world's largest wheel loader market with the completion of a new plant in Tai'an, China.

**Sales**
in KRW billions




**Orders**
in USD millions




2010 Order Breakdown
by Value

# Our Growth is Smart & Sustainable ▶

The skies are a vast resource that we are just beginning to tap. At Hyundai Heavy Industries, our focus on vertical integration in the solar and wind power fields is enabling the world to make tomorrow's skies cleaner and bluer.

# 600 MW

## JV Wind Turbine Plant in China

The world is actively embracing renewables as a key component of its long-term energy strategy. And wind power will be playing a big part in it. We are gearing up to meet demand by launching production at a joint-venture 600 MW plant in Weihai, China in January 2011 with Datang Shandong Power Generation, a subsidiary of that nation's second-largest state-owned power company. We also plan to set up production facilities in other strategic markets such as the US in the coming years.

## CIGS solar module plant

# 100 MW

In December 2010, we signed an MoU with Saint-Gobain of France to build a joint-venture thin-film solar module plant in Korea. The 100 MW first phase is scheduled to begin production in the second half of 2012.

## Offshore wind turbine project

# 5.5 MW class

In June 2010, we expanded our alliance with American Superconductor to develop a 5.5 MW offshore wind turbine. We plan to begin volume production by the end of 2012.

# Green Energy Division

At Hyundai Heavy Industries, we build some of the world's most advanced renewable energy solutions. Our state-of-the-art photovoltaic technology and use of high-grade materials to ensure the highest efficiency and reliability are a prime example. The 7.7 MW Dithmarschen Solar Park completed in Germany in May 2010 is just one of a growing number of projects we are installing across Europe.


**1.65 MW Wind Turbine** In October 2009, we began volume production of 1.65 MW and 2.0 MW doubly-fed induction wind turbine designs licensed from AMSE Windtec. In June 2010, we deepened our strategic alliance to include the joint development a 5.5 MW full conversion turbine for the burgeoning offshore wind industry.

**Gunsan Wind Turbine Plant** In March 2010, we launched production of 1.65 MW turbines at our Gunsan plant, a 600 MW capacity facility we plan to expand to 800 MW by 2013. We also launched production at a joint-venture 600 MW facility in Weihai, China in January 2011. We plan to begin deliveries from a US plant in 2013.

## 2010 Overview

The renewable energy sector enjoyed robust growth in 2010, buoyed by recovering global markets, favorable government policies, and falling costs. The global solar power market recovered strongly from the downturn that hit in 2009 as government incentives and lower material and component costs helped growth more than double from 7.2 GW to 17 GW, led primarily by demand from Europe. The global wind power market also delivered solid growth of 10.3%, adding an estimated 42 GW of new capacity during the year, led by rising demand from the US, Southeast Asia, and Europe.

## 2010 Review

In 2010, solar power orders surged 182% to surpass USD 575 million. Nearly 97% of orders came from overseas customers, including just over 72% from customers in Germany and Italy, two markets that we actively focused on. Wind power orders got off to a solid start, reaching USD 183 million as we moved forward with major projects in Korea and booked and delivered a number of 1.65 MW and 2.0 MW turbine orders from the US, Finland, and other European markets.

We significantly enhanced our production capacity and value chain in the photovoltaic field during the year as we continued to pursue turnkey renewable energy projects in our home market. We expanded photovoltaic cell capacity from 330 MW to 370 MW and module capacity from 320 MW to 510 MW through efficiency gains at our Eumseong plant. We also have a number of major wind projects under construction in Korea, including three sites in Gangwon province totaling 64 MW and two sites in South Jeolla province totaling 70 MW, with additional projects in Gyeonggi province on the drawing board.

## 2011 Outlook

Although shrinking financial incentives will dampen growth as governments tighten their financial belts, global demand for both solar and wind power is projected to steadily rise for the foreseeable future. In 2011, installed solar and wind generation capacity is expected to grow around 20% to 20 GW and 7% to 45 GW, respectively.

We are currently investing to expand our product and solution lineups and production capabilities in both fields as we gear up to meet demand in upcoming years. On the solar side, we aim to expand our photovoltaic cell capacity from 370 MW to 580 MW and module capacity from 510 MW to 1 GW by the end of 2011. We are evaluating the feasibility of setting up polysilicon ingot and wafer facilities to complete vertical integration in the photovoltaics field. We are also building a joint-venture thin-film solar module plant in Korea with Saint-Gobain of France that is scheduled to begin producing 100 MW of CIGS (copper, indium, gallium, selenide) modules annually starting in the second half of 2012.

On the wind side, we are now expanding our wind turbine lineup to include both onshore and offshore models ranging from 1.65 MW to 5.5 MW as we move forward with plans to expand production output at our Gunsan plant to 800 MW by 2013. We are also moving forward with construction of a number of overseas plants. In early 2011, we completed a 600 MW joint-venture production facility in Weihai, China capable of building 300 2.0 MW turbines annually. We also plan to complete a US production facility by 2013 to facilitate our expansion into markets in the Americas.

**Sales**
in KRW billions


**Orders**
in USD millions

# Research & Development

Our leadership in the shipbuilding and heavy manufacturing industries is built on a tradition of innovation. Our unique research organization gives us a powerful competitive advantage that ensures our long-term growth and profitability in the increasingly competitive global marketplace.

At Hyundai Heavy Industries, innovation is an integral part of our corporate DNA. On average, our research organization has well over 1,000 projects underway at any given time. Augmented by institutes in Hungary and China as well as a growing number of international partnerships, our four Korea-based research institutes are the creative dynamos that have helped us achieve a top-five global market share in 31 product categories to date, including 2 in 2010. Our goal is to expand this number to 35 categories in 2011.

In 2010, we invested KRW 187 billion in R&D. We plan to invest KRW 295 billion in 2011–a 58% increase and the equivalent of 1.1% of our projected sales–as we continue to innovate to enhance our global competitiveness.

### R&D Strategies

In 2011, we will continue to rely heavily on our world-class R&D organization for the innovations that will drive growth in today's increasingly competitive global marketplace. The following five strategies will guide us over the coming year.

- We will continue to pursue product and process innovation in each of our five R&D areas.
- We will strengthen inter-division cooperation.
- We will foster elite, world-class research personnel.
- We will strengthen and expand our global R&D network.
- We will adopt and implement a performance-based evaluation system.

### Hyundai Maritime Research Institute (HMRI)

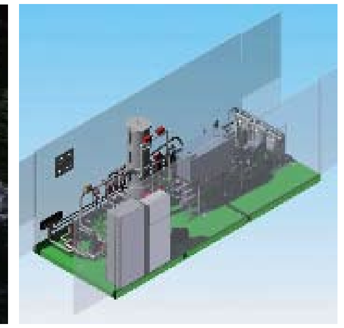
Founded in 1984, HMRI brings together the crucial engineering and performance testing capabilities that make our ships, offshore structures, engines, pumps, and construction equipment among the world's best. Key areas of research include ship hydrodynamics, offshore engineering, structural design, noise and vibration control, engine performance, and machinery design.

In 2010, HMRI developed core engineering technologies related to floating LNG (FLNG) unit hull design and offloading availability. Developed as part of a front-end engineering and design (FEED) study for the Petrobras FLNG project in Brazil, these advances give us a valuable competitive edge in a lucrative and increasingly competitive new offshore structure segment.

### Hyundai Industrial Research Institute (HIRI)

Founded in 1983, HIRI's mission is to optimize every aspect of engineering, productivity, and quality from the drawing plans to the dry docks. Key areas of research include welding, casting and forging, materials, manufacturing automation, oil and gas system process optimization, alternative energy, pollution control, coatings, and corrosion protection.

In 2010, HIRI completed a 100-ton/day reverse osmosis (RO) desalination pilot plant in collaboration with the Industrial Plant & Engineering Division. RO technology currently accounts for over 45% of the global seawater desalination market, and is growing by 15% annually. In 2011, we plan to develop a 20,000-ton/day RO plant as we position ourselves for new market opportunities as traditional sources of potable water gradually become more scarce.




**FLNG Hull FEED Study** In 2010, we developed the core technologies related to floating LNG (FLNG) hull design and other areas as part of a front-end engineering and design study for the Petrobras FLNG project in Brazil. We are well positioned to win future tenders for this new category of offshore production vessels.

**RO Desalination Pilot Plant** In October 2010, we completed development of a 100-ton/day reverse osmosis desalination plant. We aim to leverage this technology to build a commercial scale 20,000-ton/day plant in 2011 as we prepare to enter this steadily growing segment of the global seawater desalination market.

**Power Line Smart Sensor** In 2010, we developed the industry's first smart sensor and monitoring system for real-time monitoring of high-voltage power transmission and distribution lines. The system is expected to be initially deployed on a smart grid project in the Far East.

**HiMSEN Engine Awards** In 2010, our updated HiMSEN engine design featuring distinctive colors and materials earned recognition at a trio of major international design competitions, including the Design Awards of the Federal Republic of Germany, iF Product Design Awards, and Red Dot Design Awards.

### Hyundai Electro-Mechanical Research Institute (HEMRI)

Founded in 1991, HEMRI covers a broad spectrum of technical disciplines in the fields of electrical and mechanical engineering with applications that span our entire product portfolio. Key areas of research include power conversion systems, electric power machinery, plant and ship automation systems, intelligent machines, industrial robotics, and photovoltaics.

In 2010, HEMRI developed a smart sensor and monitoring system capable of providing real-time monitoring of high-voltage power transmission and distribution lines. The industry's first of its kind, the smart sensor helps prevent power outages, manage transmission equipment life, provide economical power distribution control, and monitor wide-area power networks. The system entered trial operation in October 2010 and is expected to be initially deployed by Russian power grid operator FSK for its Far East region smart grid project.

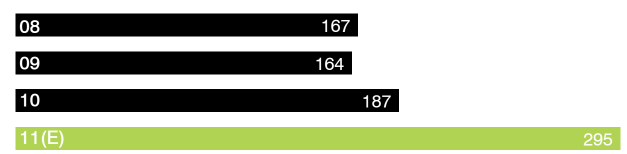
### Techno Design Institute (TDI)

Founded in 2000, TDI enhances our corporate image through product design and visual communication design, improving the design quality of major products, visual promotional items, and facilities. TDI designs ship cabin interiors, engine and machinery products, construction equipment, electro electric equipment, and naval ships, taking into account aesthetics, technical aspects, and ergonomics. In 2010, TDI made great strides in enhancing the exterior design of our world-class HiMSEN diesel engine lineup, selecting distinctive colors and materials that emphasize product benefits such as reliability, ingenuity, eco-friendliness, and convenience as well as our corporate identity. These efforts earned us recognition at the world's top design competitions, including the iF Product Design Awards, Red Dot Design Awards, and Germany's most prestigious design event, the Design Awards of the Federal Republic of Germany.

### Technology Management Center (TMC)

Founded in 2003, TMC provides the guidance and supporting systems to drive our overall R&D strategy. The center identifies business opportunities by tracking product and technology trends, facilitates knowledge dissemination by gathering, analyzing, and organizing technical data from internal and external sources, and maximizes the value of R&D investments by managing and monetizing our intellectual property portfolio.

**R&D Expenditures**
in KRW billions



# Our Growth is Global & Unlimited ▶

The future is a vast resource that requires vision, hard work, and investment to prepare for. At Hyundai Heavy Industries, we are working around the world, around the clock to ensure a solid future for ourselves and our stakeholders.

Lee Jai-seong President & CEO

# Message from the **CEOs**

## Dear Valued Stakeholder,

While the economic environment at home and abroad presented many challenges to our global operations in 2010, I am pleased to say that, without exception, all of our businesses finished the year in the black as we recorded our best performance in our 38-year history with orders of USD 17.2 billion, sales of KRW 22.4 trillion, and net income of nearly KRW 3.8 trillion.

We also had a number of noteworthy non-operational achievements during the year. Korea's Ministry of Knowledge Economy recognized two more of our products as "World Class Products of Korea". We now have a record 31 products that have earned this prestigious designation in recognition of their global top-five market share. We also were ranked 375th on the *Fortune* Global 500, marking our fourth straight year on that distinguished list of the world's largest corporations.

The year 2010 also saw our family of associates grow and prosper as we welcomed Hyundai Corporation and Hyundai Oilbank. We now have consolidated sales of KRW 50 trillion and assets of KRW 60 trillion with a presence in the heavy manufacturing, finance, oil refining, petrochemical, trading, and resource development fields.

As we look ahead to 2011, we are aiming to grow revenues 20% to KRW 26.9 trillion and orders almost 55% to USD 26.6 billion. We have set four strategic directions to aid us in achieving these ambitious goals and building greater corporate value in the coming year.



Our first focus will be on concentrating the full resources of our company to maintain and secure growth engines that will ensure our continued sound and solid growth. We will work hard to ensure that our core businesses have a stable flow of work and that our newer businesses quickly establish themselves as we continue to expand our market presence.

Our second focus will be on strengthening our core capabilities to secure a distinct competitive advantage. Here, we aim to accelerate the pace of technical development and value innovation to take the competitiveness of our products to the next level. As we develop new products and enter new markets, we will be leveraging the experience and expertise gained from our existing businesses as we work to generate new business opportunities. We will also build a framework for closer collaboration between divisions and affiliates to ensure that overall company and group resources are effectively distributed and produce maximum collaborative synergy.

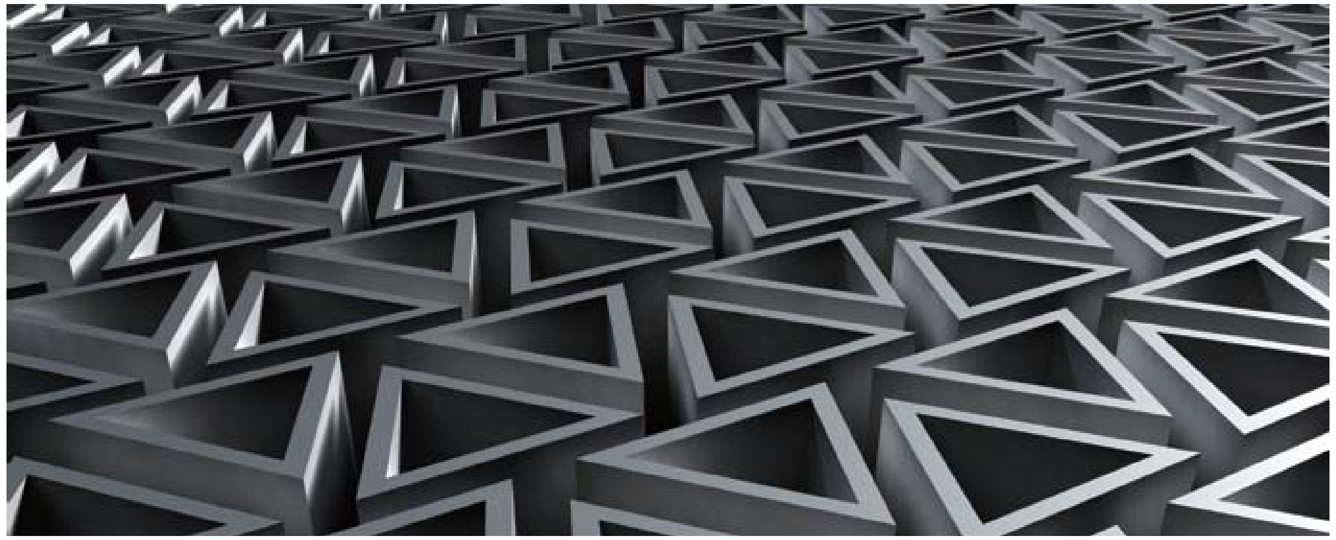
Our third focus will be on ongoing efforts to build a global management system. We will actively move forward with the localization of production, sales, and technology development to satisfy market and customer requirements as we prepare localization strategies appropriate for each local market. At the same time, we will continue to identify and foster the core talent that will be the backbone of our global operations.

Last, but not least, management and employees will join forces to create a safe and rewarding workplace. We will make every effort to ensure a safe work environment and accident-free workplace as well as enhance the health and well-being of each member of our family.

Thank you once again for your interest in Hyundai Heavy Industries. Without our passion and drive for creative innovation, the reputation we enjoy today could easily slip away and become a footnote of the past. We hope you will join us as we rededicate ourselves to writing a promising new chapter of innovation, growth, and shared prosperity around the globe in the coming year.

Lee Jai-seong President & CEO    Kim Oi-hyun Vice President & CEO

Kim Oi-hyun Vice President & CEO



# About the **Board of Directors**

The Hyundai Heavy Industries board is composed of seven directors, four of which are outside directors. Collectively, the directors assume ultimate responsibility for decisions regarding corporate affairs and the financial well-being of shareholders. All board appointments are made pursuant to the Articles of Incorporation, including due consideration of each individual's professional experience and expertise in fields such as law, economics, finance, and accounting.

The board meets to discuss and resolve corporate matters. Its responsibilities include deciding on material matters as stipulated in relevant by-laws and the Articles of Incorporation, dealing with issues delegated to it at the annual general shareholders' meeting, and addressing issues related to the basic direction and execution of company operations. The board also has the authority to appoint the CEO and board chair as well as conduct oversight of its members and company management. The board held a total of ten meetings in 2010.

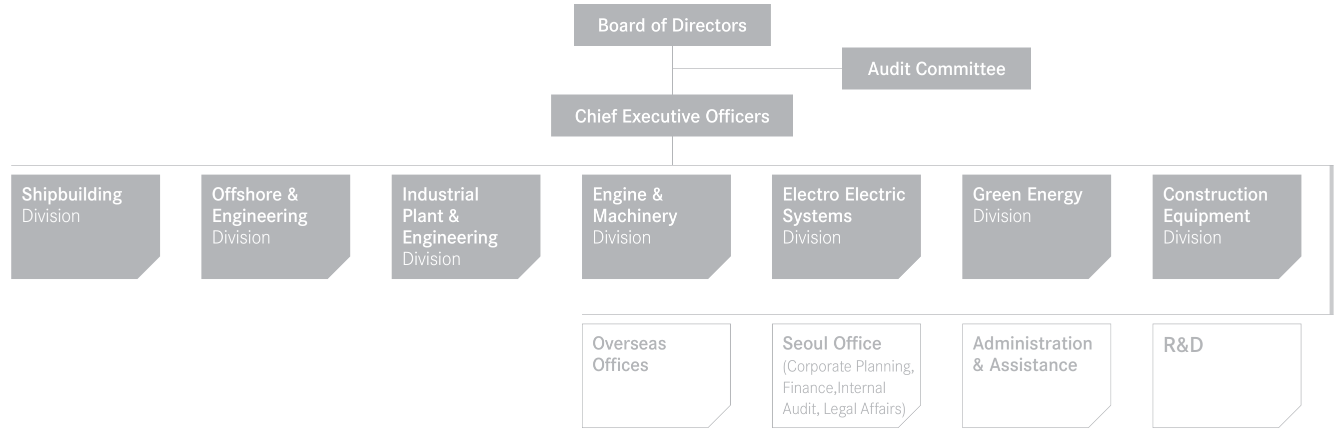
### Audit Committee

The Audit Committee is a standing committee composed of three outside directors. Its responsibilities include (1) deciding on matters related to shareholders' meetings such as the calling of interim shareholders' meetings and setting forth its views on the agenda and the documents to be presented; (2) conducting oversight of the board and its members, producing independent annual audits, and supervising the financial reporting process; and (3) addressing matters relating to audits, including contracts with independent auditors and the evaluation of their qualifications, eligibility, and performance. The committee held a total of two meetings in 2010.

### Outside Director Nominating Committee

The Outside Director Nominating Committee is a standing committee responsible for nominating qualified individuals to serve as outside directors on the board. The committee consists of one inside and two outside directors.

## Organization Chart




## Board of Directors

| | | | | |
|---|---|---|---|---|
| Inside Directors | **Lee Jai-seong**<br>President & CEO | **Kim Oi-hyun**<br>Vice President & CEO | | |
| Non-Executive and Non-Outside Director | **Choe Weon-gil**<br>President of Hyundai Mipo Dockyard | | | |
| Outside Directors | **Lee Jae-kyu**<br>• Dean of KAIST EEWS Initiative<br>• Professor, Graduate School of Management, KAIST Business School | **Song Jung-hoon**<br>• Lawyer, Hwang Mok Park<br>• LLM, Harvard University Law School | **Pyun Ho-bum**<br>• Vice-President, Deloitte Anjin LLC<br>• PhD, Business Admin., Sungkyunkwan University | **Lee Chol**<br>• Professor, Business Admin., Sogang University<br>• PhD, Business Admin., University of Texas at Austin |
| Audit Committee | **Lee Jae-kyu** | **Song Jung-hoon** | **Pyun Ho-bum** | |
| Outside Director Nominating Committee | **Lee Jai-seong** | **Song Jung-hoon** | **Lee Chol** | |

## Executive Directors

| | | | |
|---|---|---|---|
| **Lee Jai-seong**<br>President & CEO | **Kim Oi-hyun**<br>Vice President, CEO, and COO of Shipbuilding Division | **Kim Jung-rae**<br>Vice President and Chief of Administration & Assistance Headquarters | **Kang Chang-june**<br>Senior EVP and COO of Offshore & Engineering Division |
| **Chun In-soo**<br>Vice President and COO of Industrial Plant & Engineering Division | **Kwon Oh-shin**<br>Vice President and COO of Engine & Machinery Division | **Kim Kweon-tae**<br>Vice President and COO of Electro Electric Systems Division and Green Energy Division | **Choe Byeong-ku**<br>Vice President and COO of Construction Equipment Division |
| **Lee Choong-dong**<br>Senior EVP and COO of R&D Division | **Hwang See-young**<br>Vice President and Group CIO | **Lee Kun-jong**<br>Vice President and Head of Seoul Office | |

# Our Vision

Back in 1972, we booked our first ship order with nothing more than some seaside property and an ambitious vision of becoming a world-class shipbuilder. Today, that same indomitable spirit and passion continues to drive us as we pursue our vision of shaping the future as a global leader in each of our businesses. By consistently innovating to deliver the heavy machinery industry's finest products, technologies, and service, we aim to deliver superior satisfaction to our customers, more rewarding careers for our people, and greater value to our shareholders.

A global leader, sailing into a brilliant future
**Global Leader**

- Satisfy our customers with superior technology and quality
- Provide rewarding careers that help our people achieve their dreams
- Enhance corporate value with world-leading products

## Our Strategies

### 1 Structural Optimization

- Pursue market and technology leadership in each core business
- Secure core technologies and top talent through strategic expansion, alliances, and acquisitions
- Pursue new business opportunities with high synergy potential
- Exit unprofitable businesses

### 2 Network Building

- Develop global sales, marketing, and R&D networks
- Expand overseas production, service, and parts distribution networks
- Enter promising new regional markets

### 3 Operational Innovation

- Expand outsourcing of non-core and low-value-added operations
- Implement integrated ERP system

### 4 Production Optimization

- Maximize efficiency of existing facilities
- Streamline and automate facilities
- Implement integrated production management system

### 5 Technology Development

- Make major product lines global leaders
- Develop eco-friendly, high-performance, high-efficiency technologies
- Pursue innovations in production technology to raise productivity and reduce costs
- Develop and patent innovative core technologies
- Commercialize technologies that open opportunities in new fields

### 6 Synergy Building

- Package division and affiliate products and services to create new markets
- Coordinate sales, procurement, and R&D to reduce costs and raise competitiveness
- Expand flexibility in utilizing workforce and facility resources

# Our Philosophy

Over the past three decades, our creative, pioneering spirit and indomitable determination have made us a global leader in shipbuilding and a number of other heavy manufacturing industries. Today as we lead these industries into the future, we also aspire to make a difference around the globe. Our goal is to generate greater corporate and economic value wherever we do business as we actively fulfill our legal and ethical responsibilities to each local community. To guide us in this task, we have established the following five principles as the framework for our corporate code of conduct.

## Our Code of Conduct

### 1 We uphold fair and transparent business practices.

- We respect laws and uphold business ethics.
- We support free market principles through open and fair competition.
- We foster fair and clean business relationships with suppliers.

### 2 We enhance corporate value by continually growing.

- We actively seek out and cultivate businesses with growth potential.
- We secure core capabilities essential to future growth.
- We build flexible business management systems.
- We build a solid global business organization.

### 3 We pursue business practices that are safe and green.

- We provide pleasant and safe work environments.
- We prevent accidents by looking out for our own and others' safety.
- We proactively develop and adopt environmentally friendly technologies.
- We strive to make our production activities environmentally sound.

### 4 We build strong labor-management relations with mutual respect and trust.

- We foster a vibrant organizational culture based on participation and trust.
- We faithfully fulfill all duties and responsibilities to enhance corporate competitiveness.
- We strive to help our people reach their full potential.and improve their quality of life.

### 5 We contribute to social development as a global corporate citizen.

- We strive to enhance community culture and welfare.
- We contribute to national development through honest tax payment and job creation.
- We contribute to human prosperity by working to create greater value.

# HHI and the **Community**

At Hyundai Heavy Industries, we believe that building win-win relationships with every stakeholder in our local community is essential to our success. In our role as an employer, customer, or neighbor, we work hard to build close relationships with our people, partners, and community to create greater growth and prosperity for all.

Charity donation ceremony

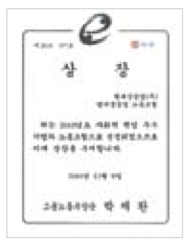
Technical training programs for small and medium businesses

Organ donor campaign

Ulsan String Players Chamber Orchestra

Labor Relations Awards

President's Award
Labor Relations Grand Prix, 2009



Employment and Labor Minister's Citation
Ministry of Employment and Labor, 2010

## Employees & Partners

The secret of our success is the 25,000-strong workforce that builds the ships, plants, facilities, and equipments we sell to customers worldwide. Together, we have built an enduring win-win relationship that has created an environment of trust and respect that has helped us weather good times and bad. In 2010, we concluded our 16th straight annual collective bargaining agreement without incident. Our commitment to labor harmony was once again recognized by the Ministry of Employment and Labor with a special Minister's citation in December 2010.

The Hyundai Technical Education Institute (HTEI) has trained skilled professionals in a number of areas since 1972. In 2003, we were selected by Korea's Ministry of Employment and Labor to be part of a consortium to train small and medium business employees. HTEI runs a total of 13 courses covering shipbuilding, machinery, electrical systems, CAD, painting, and other fields. The courses run between three and five months with around 30 total sessions annually. Over 32,000 people have completed training to date, with more than 90% securing employment.

## Community Service

As a major employer in the Ulsan region, we take social responsibility very seriously. We actively support local agricultural and fisheries industries through foodstuff purchases by our foodservice and food donation programs. We raise funds to aid parentless families, shut-in seniors, orphanages, and nursing homes as well as adopting schools. Our employees also generously volunteer their time and resources to benefit worthy causes. In March 2010, over 23,000 of them signed up to donate the change from their paychecks to a special charity fund that will provide a total of KRW 600 million to benefit three worthy charities over the next three years. More than 15,300 employees of the Hyundai Heavy Industries Group have also signed organ donation cards to give the gift of life.

Our social commitment extends far beyond Korea. In recent years, we have dispatched excavators and support teams to aid in post-earthquake disaster relief in both Haiti and China as well as donated funds to rebuild schools and hope. In January 2010, our employees donated over KRW 109 million for earthquake relief in Haiti. We also sponsored a temporary medical clinic in Pune, India that provided over 3,000 local residents with medical care, medicine, and first-aid kits in December 2010.

## Education

We are firm believers in the value of a quality education. We operate a number of primary and secondary educational institutions, including the University of Ulsan and Ulsan College. The former has the highest graduate employment rate of any Korean 4-year college and has been ranked one of Korea's top universities for the past five years. We also operate a "Housewives College" program each spring that provides employee spouses with a wide variety of opportunities for learning and self-development. Over 10,000 spouses have graduated from the program to date, going on to enrich the community through active volunteer service.

## Culture & Arts

We have helped turn one of Korea's top manufacturing cities into one of its most cultured. The Korean Business Council for the Arts ranked us No. 1 on its annual survey of corporate support for the arts among Korea's top-500 companies in terms of sales for five straight years between 2004 and 2008.

Over the years, we have helped expand Ulsan's cultural infrastructure by building a total of seven cultural and arts centers. The largest of these is the Hyundai Arts Center. This multi-purpose facility features a 1,000-seat main hall that hosts world-class concerts, opera, and musicals, an art gallery, a movie theater, and a variety of leisure and sports facilities. In the past eleven years since it opened, approximately 11 million people have used this facility, an average of 3,000 per day and 1.1 million per year. These centers also host over 400 lifelong education programs annually, serving more than 17,000 members.

# HHI and the **Environment**

As a global leader in a number of heavy manufacturing fields, we are committed to being a leader in low-carbon green growth. Since acquiring ISO 14001 certification in 1997, we have made environmental management a core part of our operations. We are also actively developing and deploying eco-friendly green technologies such as solar, wind, hybrid ships, and ballast water treatment systems.


Safety poster competitions

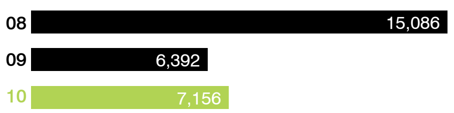

Community cleanup activities


Community cleanup activities


Health Center

### Hazardous Material Usage
in tons/year (Ulsan yard)


### Wastewater Discharges
in $m^3$/year (Ulsan yard)




### Responding to Climate Change
Climate change is globally recognized as the most pressing environmental issue of our day. Around the world, efforts to reduce and regulate greenhouse gas emissions are gaining momentum.

As a leader in our field, we at Hyundai Heavy Industries are systematically working to reduce the carbon footprint of our operations and products. In 2010, we became the world's first shipbuilder to complete a greenhouse gas inventory. Verified by the Korean Standards Association, the inventory gives us a comprehensive understanding of emissions sources and amounts from our operations, providing a framework to systematically manage and reduce our GHG emissions as well as a more accurate, credible, and transparent accounting of environmental responsibility.

### $CO_2$ Mitigation
In 2010, we entered the $CO_2$ mitigation business by installing a 1.65 MW wind turbine at our Ulsan yard as part of our response to climate change and to secure carbon credits. Our wind turbine installation has passed inspection by the Korea Energy Management Corporation, making us the first in the shipbuilding industry to enter a business that is projected to earn 2,450 carbon credits annually, one for each ton of carbon emissions that are reduced.

### Environmental Management Strategy

| | |
|---|---|
| Strengthen Environmental Systems | • Adopt systematic worksite monitoring systems<br>• Bolster workforce environmental training<br>• Implement environmental information system |
| Comply with Environmental Regulations | • Comply actively with international conventions on climate change<br>• Establish proactive response mechanism for international regulations<br>• Respect domestic environmental regulations |
| Build Clean Manufacturing Systems | • Minimize resource and energy usage<br>• Minimize waste generation and maximize recycling<br>• Optimize operation of pollution prevention facilities |
| Enhance Environmental Initiatives | • Participate actively in community environmental activities<br>• Participate actively in voluntary agreements<br>• Produce and publish environmental reports |
| Emphasize Eco-Friendly Businesses | • Develop eco-friendly products and technologies<br>• Expand renewable energy businesses |

Major Certifications


ISO 14001


OHSAS 18001

### Clean Production
We operate and maintain clean production systems as part of our commitment to minimizing pollution at the source. Our comprehensive facilities–including regenerative thermal oxidizers, bag filters, and a wastewater treatment plant–are continuously monitored and maintained to ensure optimal performance. We also continue to improve our production processes to steadily reduce the environmental load of our operations.

Our internal pollution emissions standards are extremely strict, allowing only half of the legally permissible levels. In addition to preventing and reducing waste generation, we also systemically sort and recycle waste to use our resources more effectively and efficiently.

Because of the coastal locations of our production facilities, we have established internal procedures governing marine facility and vessel operation. These include regulations prohibiting ocean dumping of fuel and waste to prevent coastal pollution.

### Safety
At Hyundai Heavy Industries, the safety of our people is our number one priority. We strive to maintain an accident-free workplace through a number of initiatives.

Our Incident & Injury Free (IIF) initiative is playing a key role in instilling a culture of intuitive safety. Our 16 in-house IIF instructors have trained over 12,000 employees to date. Our annual safety video competition attracted a total of 112 entries in 2010 as teams of employees worked together to create and share their safety knowledge. All these activities as well as safety motto and poster competitions, recognition of collective and individual safety excellence, and a variety of other events are helping make our yards and worksites among the safest in the industry.

### Health
Caring for the health and well-being of our people is another one of our top priorities. We operate a wide range of health programs that focus on preventing musculoskeletal and cerebrovascular disorders as well as other occupational diseases.

In 2010, we once again focused on preventing swine influenza and hepatitis A by publicizing common-sense prevention information as well as expediting treatment of employees with symptoms. We also continued to partner with the local community health center to expand our smoking cessations programs, incentives, and counseling services to help our people fundamentally improve their long-term health.

# Our Growth is Solid & Steady ▶

Solid fundamentals are key to long-term success in the global marketplace. At Hyundai Heavy Industries, we are committed to generating quality growth as we explore new frontiers to deliver greater growth and prosperity for all our stakeholders.

The following discussion contains forward-looking statements. These statements are related to future events, rather than historical facts, and include statements about the Company's beliefs and expectations regarding its future business situation and financial results.

By their nature, forward-looking statements imply uncertainty and are indicated by phrases that include words such as "expects", "forecasts", "projects", and "plans". Examples of uncertainties that may favorably or unfavorably impact the Company's business situation and financial results include orders, exchange rates, and steel plate prices.

Please be aware that these uncertainties may result in the Company's actual performance being materially different from these forward-looking statements, whether explicitly expressed or implied. The Company expressly disclaims any obligation to publicly update or revise any of these statements in light of new information that may arise after the date they are made.

The Company's financial statements are prepared in accordance with generally accepted accounting principles in the Republic of Korea (Korean GAAP). The fiscal 2010 statements were prepared using the same accounting policies adopted for the fiscal 2009 statements.

## Business Overview

While the efforts of the global community to recover from the global economic crisis of 2008 enjoyed a degree of success in 2010, the global shipbuilding industry continued to lag behind, experiencing another difficult year. In the face of challenging circumstances, all of the Company's divisions delivered profitable performances as it recorded the best performance in its history with sales of KRW 22,405.2 billion and a net income of KRW 3,761.1 billion.

The Company strengthened its core competencies in marketing, production, technical development, and other areas during the year, securing a strong competitive advantage that continues to make it a truly world-class company. With the establishment of the Green Energy Division in January 2011, the Company accelerated its advance into solar and wind power fields, putting in place a solid foundation for sustainable growth.

## Results of Operations

in KRW billions

| Summary Income Statements | 2010 | 2009 | 2008 |
|---|---|---|---|
| Sales | 22,405.2 | 21,142.2 | 19,957.1 |
| Gross Profit | 4,670.3 | 314.5 | 314.5 |
| Selling, General and Administrative Expenses | 1,230.9 | 922.2 | 938.9 |
| Operating Income | 3,439.4 | 2,222.6 | 2,206.2 |
| Income Before Income Taxes | 4,784.3 | 2,648.1 | 2,949.6 |
| Net Income | 3,761.1 | 2,146.5 | 2,256.7 |

### Sales

Although Shipbuilding Division sales decreased due to a decline in demand for new vessels, Company sales rose 6% to KRW 22,405.2 billion in 2010 due to a surge in sales from non-shipbuilding businesses powered by strong order performances in recent years.

Sales in KRW billions

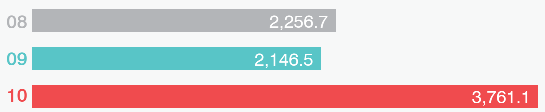

### Operating Income

Operating income rose 54.7% to KRW 3,439.4 billion in 2010 due to improved profitability by all divisions except Engine & Machinery, with particularly strong performances by Electro Electric Systems and Construction Equipment.

### Net Income

A significant increase in non-operating income due to a large gain on valuation of equity-method investments helped boost income before income taxes 80.7% to KRW 4,784.3 billion in 2010. After deducting income tax expense of KRW 1,023.2 billion, net income was KRW 3,761.1 billion.

Net Income in KRW billions




## Financial Structure Analysis

in KRW billions

| Summary Balance Sheet | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| Cash and Cash Equivalents | 624.5 | 632.6 | 667.5 |
| Trade Accounts and Notes Receivable | 5,950.8 | 4,973.5 | 4,498.9 |
| Inventories | 2,084.2 | 1,928.6 | 2,263.3 |
| Investment Assets | 9,089.3 | 4,866.4 | 3,224.4 |
| Firm Commitment Assets | 789.0 | 1,922.3 | 4,559.1 |
| Property, Plant and Equipment | 8,000.2 | 8,145.5 | 6,190.0 |
| Total Assets | 28,888.1 | 24,872.6 | 25,280.4 |
| **Liabilities** | | | |
| Trade Accounts and Notes Payable | 1,927.6 | 1,427.6 | 2,337.3 |
| Advances from Customers | 6,142.7 | 8,583.5 | 10,177.4 |
| Derivative Liabilities | 708.9 | 2,126.5 | 5,616.1 |
| Total Liabilities | 15,069.1 | 15,064.2 | 19,685.2 |
| **Stockholders' Equity** | | | |
| Retained Earnings | 10,052.9 | 6,503.9 | 4,657.1 |
| Capital Surplus | 2,954.4 | 2,869.6 | 2,818.6 |
| Capital Adjustments | -1,705.4 | -1,697.8 | -1,762.0 |
| Accumulated Other Income | 2,137.1 | 1,752.7 | -498.5 |
| Total Stockholders' Equity | 13,819.0 | 9,808.4 | 5,595.2 |

### Assets

Company assets increased 16.1% to KRW 28,888.1 billion in 2010. While cash and cash equivalents and property, plant and equipment decreased, trade accounts and notes receivable and investment assets increased.

Total Assets in KRW billions


### Liabilities

Liabilities increased slightly to KRW 15,069.1 billion in 2010. While advances from customers and derivative liabilities decreased, trade accounts and notes payable and borrowing increased.

in KRW billions

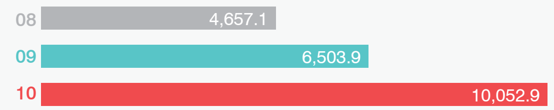
| Financial Stability Ratios | 2010 | 2009 | 2008 |
|---|---|---|---|
| Liabilities-to-Equity | 109.0% | 153.6% | 351.8% |
| Debt-to-Equity | 24.9% | 9.1% | 0.1% |

### Stockholders' Equity

Stockholders' equity increased 40.9% to KRW 13,819.0 billion in 2010, benefitting from a record net income and the disposition of treasury stock by transfer into an employee stock ownership plan.

At 2010 year-end, the Company's liabilities-to-equity ratio stood at 109%, a 44.6 percentage-point decline for the year. The debt-to-equity ratio rose 15 percentage points to 24.9% due to increased borrowings of KRW 2,500 billion related to the acquisition of Hyundai Oilbank.

Retained Earnings in KRW billions




## Liquidity, Borrowings & Capital Expenditures

### Liquidity

The Company's cash and cash equivalents decreased 1.3% to KRW 624.5 billion and short-term financial instruments dropped 93.6% to KRW 7.0 billion in 2010. The liquidity ratio decreased 0.9 percentage points to 81.3% for the year.

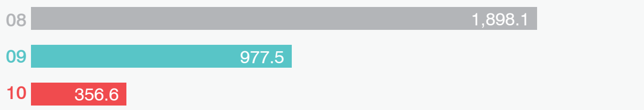
### Borrowings

The Company's borrowings increased by KRW 2,557.7 billion in 2010 due to the acquisition of Hyundai Oilbank. The Company's borrowing strategy is designed to ensure an appropriate level of liquidity is maintained, taking into account the operating environment and increasing volatility in financial markets.

### Capex Investment

The Company invested KRW 356.6 billion in 2010, a 63.5% decrease over 2009. It plans to invest KRW 994.0 billion in capital expenditures in 2011.

**Capex Investment** in KRW billions




## Order Performance & Targets

in USD millions

| Orders by Division | 2011(E) | 2010 | 2009 |
|---|---|---|---|
| Shipbuilding | 7,472 | 4,061 | 444 |
| Offshore & Engineering | 4,800 | 3,069 | 2,352 |
| Industrial Plant & Engineering | 3,800 | 2,010 | 2,826 |
| Engine & Machinery | 3,220 | 2,283 | 1,452 |
| Electro Electric Systems & Green Energy | 5,000 | 3,793 | 2,556 |
| Construction Equipment | 2,343 | 1,993 | 1,105 |
| Total Orders | 26,635 | 17,209 | 10,735 |

### Shipbuilding

The Shipbuilding Division booked orders for 57 vessels valued at USD 4.06 billion in 2010 despite a ship financing crunch that led to lackluster sales. Leveraging its eco-friendly technology, the division is targeting orders of 73 vessels valued at USD 7.47 billion in 2011.

### Offshore & Engineering and Industrial Plant & Engineering

The Offshore & Engineering and Industrial Plant & Engineering Divisions booked orders of USD 5.08 billion, including contracts for a USD 1.2 billion cylindrical FPSO and USD 1.6 billion combined-cycle power plant. These divisions are targeting orders of USD 8.6 billion in 2011 based on continued global economic recovery as well as rising demand for offshore oil and gas development driven by high oil prices.

### Engine & Machinery

The Engine & Machinery Division booked orders of USD 2.28 billion, surpassing the 100 million bhp production milestone for two-stroke marine diesel engines as well as winning orders for its first nuclear power plant emergency backup generator and major diesel power plant projects. The division is targeting orders of USD 3.22 billion in 2011 based on an improving shipbuilding market and rising demand for power plant engines.

### Electro Electric Systems and Green Energy

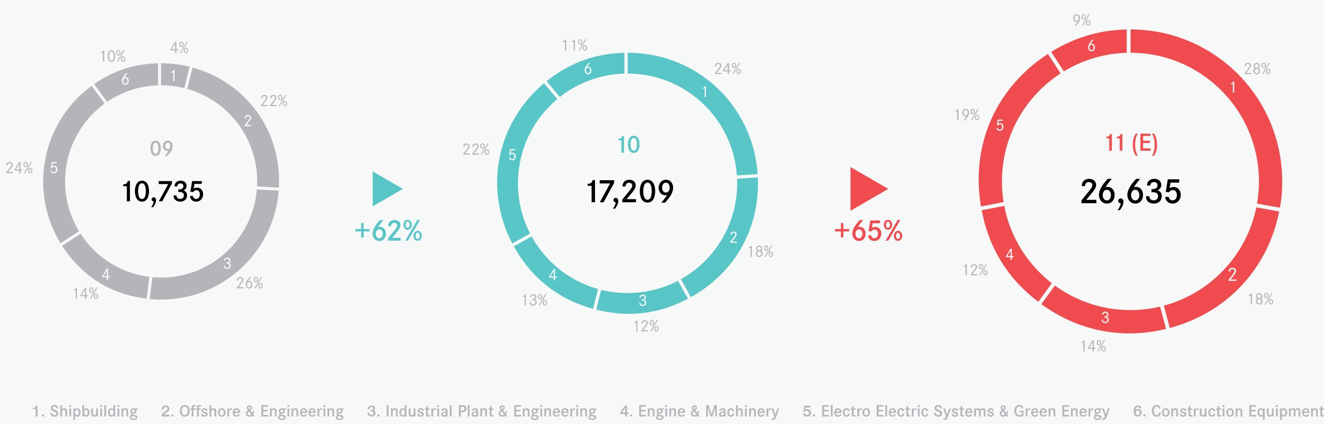
The Electro Electric Systems and Green Energy Divisions won growing overseas orders for electric equipment such as transformers as well as solar and wind power systems, booking orders of USD 3.79 billion in 2010. The divisions are targeting orders of USD 5.0 billion in 2011 based on increasing demand from emerging markets as well as successful entrances into new markets.

### Construction Equipment

The Construction Equipment Division stepped up its marketing in emerging overseas markets with a focus on China and boosted competitiveness by shipping its first electric excavator and other models designed to meet local market needs, booking orders of USD 1.99 billion. The division is targeting orders of USD 2.3 billion in 2011 based on rising demand for infrastructure construction in China and other emerging markets.

Overall, the Company booked orders of USD 17.21 billion in 2010. The Company aims to grow orders by over 54% in 2011 to USD 26.63 billion as the global economy returns to steady growth.

**Order Breakdown by Division** in USD millions




## Primary Factors in Profitability

### Exchange Rate Exposure

Exports account for approximately 89% of the Company's total sales. With the exception of project costs paid in foreign currencies, contract amounts for these exports are subject to currency fluctuation risk. The Company signs currency forward contracts for a portion of its net exchange rate exposure to hedge currency risk.

### Steel Plate Prices

In general, steel plate prices are determined by supply and demand as well as raw material prices. As the global real economy recovers, rising demand for raw materials will push prices of iron ore, coking coal, and related materials upward, leading to higher steel plate prices. If, however, the real economy stagnates, leading to a downturn in the ocean shipping industry, limited new shipbuilding orders will result in less demand for steel plate. This, combined with steadily rising industry capacity, will lead to lower steel plate prices.

In 2011, prices of iron ore and coking coal are expected to rise following severe January flooding in Australia, a major producer of these resources. Steel plate prices are also forecast to rise due to a disruption of supply in the wake of the earthquake and tsunami that hit Japan in March.

# Independent Auditors' Report

Based on a report originally issued in Korean

## The Board of Directors and Stockholders
## Hyundai Heavy Industries Co., Ltd.:

We have audited the accompanying non-consolidated statements of financial position of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2010 and 2009 and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2010 and 2009 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 28, 2011

Notice to Readers
This report is effective as of February 28, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



# Non-Consolidated Statements of Financial Position

As of December 31, 2010 and 2009

(In thousands of won, except share data)

| ASSETS | | 2010 | | 2009 |
|---|---|---|---|---|
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents (Note 26) | ₩ | 624,479,536 | ₩ | 632,578,218 |
| Short-term financial instruments (Note 3, 26) | | 6,967,606 | | 109,033,003 |
| Accounts and notes receivable - trade, less allowance for doubtful accounts of ₩76,909,350 in 2010 and ₩109,816,750 in 2009 (Note 15, 21, 25, 26) | | 5,950,845,574 | | 4,973,543,411 |
| Accounts receivable - other, less allowance for doubtful accounts of ₩125,225,202 in 2010 and ₩206,364,299 in 2009 (Note 16, 25, 26) | | 125,889,630 | | 117,586,658 |
| Advance payments, less allowance for doubtful accounts of ₩9,874,635 in 2010 and ₩13,125,144 in 2009 | | 965,774,062 | | 1,228,556,767 |
| Accrued income (Note 26) | | 38,133,914 | | 37,495,883 |
| Foreign exchange forward contracts (Note 15) | | 896,578,183 | | 1,377,159,343 |
| Current deferred tax assets (Note 22, 23) | | 8,644,036 | | - |
| Inventories (Note 4) | | 2,084,173,022 | | 1,928,558,515 |
| Other current assets (Note 5, 21, 26) | | 173,686,520 | | 205,402,613 |
| **Total current assets** | ₩ | 10,875,172,083 | ₩ | 10,609,914,411 |
| **NON-CURRENT ASSETS** | | | | |
| Long-term financial instruments (Note 3, 26) | ₩ | 1,450,948 | ₩ | 3,224,878 |
| Long-term investment securities (Note 6) | | 1,636,986,500 | | 1,174,080,691 |
| Equity method investments (Note 7) | | 7,450,873,449 | | 3,689,107,855 |
| Property, plant and equipment, net (Note 8, 27) | | 8,000,158,278 | | 8,145,522,809 |
| Intangible assets (Note 9, 27) | | 306,043,280 | | 288,459,041 |
| Long-term accounts and notes receivable - trade, less allowance for doubtful accounts of ₩212,166,461 in 2010 and ₩27,138,889 in 2009 (Note 15, 21, 26) | | 255,295,030 | | 51,243,264 |
| Foreign exchange forward contracts (Note 15) | | 193,634,449 | | 805,264,651 |
| Other non-current assets (Note 10, 26) | | 168,517,079 | | 105,765,901 |
| **Total non-current assets** | ₩ | 18,012,959,013 | ₩ | 14,262,669,090 |
| **Total assets** | ₩ | 28,888,131,096 | ₩ | 24,872,583,501 |

(Continued)

## Non-Consolidated Statements of Financial Position, Continued

As of December 31, 2010 and 2009

(In thousands of won, except share data)

| LIABILITIES & STOCKHOLDERS' EQUITY | | 2010 | | 2009 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Accounts and notes payable – trade (Note 25, 26) | ₩ | 1,927,633,682 | ₩ | 1,427,589,252 |
| Short-term borrowings (Note 12, 15, 26) | | 3,114,981,687 | | 585,320,608 |
| Accounts payable - other (Note 25, 26) | | 204,706,029 | | 146,908,841 |
| Advances from customers (Note 21) | | 6,142,674,031 | | 8,583,478,070 |
| Accrued expenses (Note 26) | | 225,035,587 | | 251,590,915 |
| Income tax payable (Note 22) | | 721,534,902 | | 263,311,110 |
| Foreign exchange forward contracts (Note 15) | | 767,222,550 | | 1,405,086,993 |
| Current deferred tax liabilities (Note 22, 23) | | - | | 16,682,139 |
| Other current liabilities (Note 11, 21, 26) | | 273,382,849 | | 229,133,419 |
| **Total current liabilities** | ₩ | **13,377,171,317** | ₩ | **12,909,101,347** |
| NON-CURRENT LIABILITIES | | | | |
| Debentures, net of discount on debentures of ₩538,724 in 2010 and ₩930,804 in 2009 (Note 12) | ₩ | 299,461,276 | ₩ | 299,069,196 |
| Long-term borrowings (Note 12, 15, 26) | | 32,840,759 | | 5,166,671 |
| Provision for retirement and severance benefits, net of deposit for severance benefit insurance and others of ₩699,903,531 in 2010 and ₩1,051,671,743 in 2009 (Note 13) | | 93,069,182 | | 174,477,102 |
| Non-current deferred tax liabilities (Note 8, 22, 23) | | 967,619,725 | | 691,066,287 |
| Foreign exchange forward contracts (Note 15) | | 203,268,464 | | 907,835,125 |
| Other long-term liabilities (Note 14) | | 95,667,893 | | 77,466,586 |
| **Total non-current liabilities** | ₩ | **1,691,927,299** | ₩ | **2,155,080,967** |
| **Total liabilities** | ₩ | **15,069,098,616** | ₩ | **15,064,182,314** |
| STOCKHOLDERS' EQUITY | | | | |
| Common stock of ₩5,000 par value Authorized - 160,000,000 shares Issued and outstanding - 76,000,000 shares in 2010 and 2009 | ₩ | 380,000,000 | ₩ | 380,000,000 |
| Capital surplus (Note 17) | | 2,954,448,715 | | 2,869,578,078 |
| Capital adjustments (Note 19) | | (1,705,455,307) | | (1,697,794,475) |
| Accumulated other comprehensive income (Note 6, 7, 8, 15, 22, 23) | | 2,137,128,455 | | 1,752,672,452 |
| Retained earnings (Note 18) | | 10,052,910,617 | | 6,503,945,132 |
| **Total stockholders' equity** | ₩ | **13,819,032,480** | ₩ | **9,808,401,187** |
| **Total liabilities and stockholders' equity** | ₩ | **28,888,131,096** | ₩ | **24,872,583,501** |

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Income

For the years ended December 31, 2010 and 2009

(In thousands of won, except earnings per share)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Sales (Note 15, 21, 25, 27) | ₩ | 22,405,181,314 | ₩ | 21,142,196,736 |
| Cost of sales (Note 21, 25, 27) | | 17,734,846,239 | | 17,997,442,921 |
| **Gross profit** | ₩ | **4,670,335,075** | ₩ | **3,144,753,815** |
| Selling, general and administrative expenses (Note 8, 25, 27, 28, 31, 32) | | 1,230,898,861 | | 922,179,896 |
| **Operating income** | ₩ | **3,439,436,214** | ₩ | **2,222,573,919** |
| Interest and dividend income (Note 32) | ₩ | 172,431,689 | ₩ | 174,725,132 |
| Gain on foreign currency transactions | | 346,307,291 | | 718,752,290 |
| Gain on foreign currency translation (Note 26) | | 28,288,463 | | 29,819,200 |
| Gain on disposal of property, plant and equipment (Note 8) | | 14,190,477 | | 79,100,524 |
| Gain on valuation of equity method investments (Note 7) | | 1,273,555,935 | | 479,596,159 |
| Gain on foreign exchange forward contracts (Note 15) | | 777,972,113 | | 1,415,583,922 |
| Other income | | 471,147,912 | | 411,984,109 |
| **Non-operating income** | ₩ | **3,083,893,880** | ₩ | **3,309,561,336** |
| Interest expense (Note 32) | ₩ | 80,405,772 | ₩ | 34,129,364 |
| Loss on foreign currency transactions | | 400,894,218 | | 543,822,224 |
| Loss on foreign currency translation (Note 26) | | 52,706,276 | | 62,965,784 |
| Loss on disposal of property, plant and equipment (Note 8) | | 2,420,634 | | 16,463,892 |
| Loss on valuation of equity method investments (Note 7) | | 37,350,645 | | 194,614,208 |
| Loss on foreign exchange forward contracts (Note 15) | | 945,024,367 | | 1,920,402,241 |
| Other expenses (Note 6, 31) | | 220,199,843 | | 111,674,307 |
| **Non-operating expenses** | ₩ | **1,739,001,755** | ₩ | **2,884,072,020** |
| **Income before income taxes** | ₩ | **4,784,328,339** | ₩ | **2,648,063,235** |
| Income taxes (Note 22) | | 1,023,188,647 | | 501,574,440 |
| **Net income** | ₩ | **3,761,139,692** | ₩ | **2,146,488,795** |
| **Earnings per share** | | | | |
| Basic earnings per share (Note 24) | ₩ | 61,807 | ₩ | 35,705 |

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2010 and 2009

Date of Appropriation for 2010: March 11, 2011
Date of Appropriation for 2009: March 12, 2010

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| **Unappropriated retained earnings** | | |
| Balance at beginning of year | ₩ 10 | ₩ 5 |
| Net income | 3,761,139,692 | 2,146,488,795 |
| **Balance at end of year before appropriation** | **₩ 3,761,139,702** | **₩ 2,146,488,800** |
| **Transfer from voluntary reserves** | | |
| Reserve for research and human development | ₩ 76,666,667 | ₩ 76,666,667 |
| **Unappropriated retained earnings available for appropriation** | **₩ 3,837,806,369** | **₩ 2,223,155,467** |
| **Appropriation of retained earnings** | | |
| Legal reserve | ₩ 100,000,000 | ₩ 300,000,000 |
| Reserve for research and human development | 3,308,787,280 | 1,710,981,250 |
| Dividends – 140% on par value at ₩7,000 per share - 70% on par value at ₩3,500 per share (Note 20) | 429,019,080 | 212,174,207 |
| **Unappropriated retained earnings to be carried over to subsequent year** | **₩ 9** | **₩ 10** |

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Changes in Equity

For the years ended December 31, 2010 and 2009

(In thousands of won)

| | Common stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income | Retained earnings | Total stockholders' equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2009** | **₩ 380,000,000** | **₩ 2,818,590,688** | **₩(1,762,040,031)** | **₩ (498,454,758)** | **₩ 4,657,123,617** | **₩ 5,595,219,516** |
| Dividends | - | - | - | - | (299,667,280) | (299,667,280) |
| **Balance after appropriation** | - | - | - | - | **4,357,456,337** | **5,295,552,236** |
| Net income | - | - | - | - | 2,146,488,795 | 2,146,488,795 |
| Changes in other capital surplus | - | 50,987,390 | - | - | - | 50,987,390 |
| Changes in treasury stock | - | - | 65,469,293 | - | - | 65,469,293 |
| Changes in capital adjustments on valuation of equity method investments | - | - | (1,223,737) | - | - | (1,223,737) |
| Changes in gain and loss on valuation of investment securities | - | - | - | 534,950,242 | - | 534,950,242 |
| Changes in equity arising on application of the equity method | - | - | - | 263,582,652 | - | 263,582,652 |
| Negative changes in equity arising on application of the equity method | - | - | - | 133,368,767 | - | 133,368,767 |
| Changes in gain and loss on valuation of derivatives | - | - | - | 354,767,062 | - | 354,767,062 |
| Changes in gain and loss on revaluation of land | - | - | - | 964,458,487 | - | 964,458,487 |
| **Balance at December 31, 2009** | **₩ 380,000,000** | **₩ 2,869,578,078** | **₩(1,697,794,475)** | **₩ 1,752,672,452** | **₩ 6,503,945,132** | **₩ 9,808,401,187** |

(Continued)

## Non-Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2010 and 2009

(In thousands of won)

| | Common stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income | Retained earnings | Total stockholders' equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | ₩ 380,000,000 | ₩ 2,869,578,078 | ₩ (1,697,794,475) | ₩ 1,752,672,452 | ₩ 6,503,945,132 | ₩ 9,808,401,187 |
| Dividends | - | - | - | - | (212,174,207) | (212,174,207) |
| **Balance after appropriation** | - | - | - | - | 6,291,770,925 | 9,596,226,980 |
| Net income | - | - | - | - | 3,761,139,692 | 3,761,139,692 |
| Changes in other capital surplus | - | 84,870,637 | - | - | - | 84,870,637 |
| Changes in treasury stock | - | - | 63,517,054 | - | - | 63,517,054 |
| Changes in capital adjustments on valuation of equity method investments | - | - | (71,177,886) | - | - | (71,177,886) |
| Changes in gain and loss on valuation of investment securities | - | - | - | 404,589,747 | - | 404,589,747 |
| Changes in equity arising on application of the equity method | - | - | - | 33,025,683 | - | 33,025,683 |
| Negative changes in equity arising on application of the equity method | - | - | - | (19,938,337) | - | (19,938,337) |
| Changes in gain and loss on valuation of derivatives | - | - | - | (24,579,758) | - | (24,579,758) |
| Changes in gain and loss on revaluation of land | - | - | - | (8,641,332) | - | (8,641,332) |
| **Balance at December 31, 2010** | ₩ 380,000,000 | ₩ 2,954,448,715 | ₩ (1,705,455,307) | ₩ 2,137,128,455 | ₩ 10,052,910,617 | ₩ 13,819,032,480 |

See accompanying notes to non-consolidated financial statements.



## Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Net income** | ₩ 3,761,139,692 | ₩ 2,146,488,795 |
| **Adjustments for:** | | |
| Depreciation | ₩ 440,045,046 | ₩ 399,694,162 |
| Accrual for retirement and severance benefits | 231,060,703 | 138,734,091 |
| Accrual for allowance for doubtful accounts | 206,638,605 | 48,943,879 |
| Loss on foreign currency translation | 52,412,507 | 61,923,820 |
| Loss on disposal of property, plant and equipment | 2,420,634 | 16,463,892 |
| Loss on valuation of equity method investments | 37,350,645 | 194,614,208 |
| Amortization of development costs | 50,107,514 | 43,937,229 |
| Loss on valuation of foreign exchange forward contracts | 1,280,506,612 | 3,465,964,718 |
| Accrual for foreseeable losses on construction contracts | 10,354,528 | - |
| Gain on foreign currency translation | (27,911,838) | (29,530,267) |
| Gain on valuation of equity method investments | (1,273,555,935) | (479,596,159) |
| Gain on valuation of foreign exchange forward contracts | (498,359,191) | (1,123,079,572) |
| Reversal of allowance for doubtful accounts | (56,794,398) | (91,734,801) |
| Others, net | 149,783,637 | (143,154,232) |
| | ₩ 4,365,198,761 | ₩ 4,649,669,763 |
| **Changes in assets and liabilities:** | | |
| Accounts and notes receivable - trade | ₩ (1,378,288,653) | ₩ (539,653,977) |
| Accounts receivable - other | (24,979,429) | 125,837,400 |
| Accrued income | (829,100) | 21,236,562 |
| Advance payments | 265,253,124 | (379,742,025) |
| Inventories | (155,614,507) | 303,820,209 |
| Foreign exchange forward contracts | (910,339,445) | (2,781,147,823) |
| Accounts and notes payable – trade | 505,971,242 | (900,841,316) |
| Accounts payable - other | 58,022,624 | (34,330,548) |
| Advances from customers | (2,595,327,513) | (1,545,942,898) |
| Accrued expenses | (20,637,658) | (23,925,895) |
| Income tax payable | 431,127,890 | (210,026,183) |
| Deposit for severance benefit insurance | 338,766,711 | 57,442,086 |
| Payment of retirement and severance benefits | (664,236,835) | (164,508,686) |
| Deferred tax assets | (728,039) | 99,969,668 |
| Deferred tax liabilities | 163,045,987 | 41,635,138 |
| Others, net | 311,698,727 | 322,518,271 |
| **Net cash provided by (used in) operating activities** | ₩ 688,103,887 | ₩ (957,990,254) |

(Continued)

## Non-Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2010 and 2009

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Disposal of short-term financial instruments | ₩ 169,033,609 | ₩ 1,687,213,470 |
| Disposal of short-term investment securities | - | 102,966,108 |
| Disposal of short-term loans | - | 30,000,000 |
| Disposal of long-term financial instruments | - | 11,947,520 |
| Disposal of long-term investment securities | 44,622,312 | 54,916,202 |
| Disposal of equity method investments | 32,350,013 | 19,773 |
| Disposal of long-term loans | 1,751,400 | - |
| Disposal of other non-current assets | 2,890,924 | 24,744,631 |
| Disposal of property, plant and equipment | 6,844,088 | 128,172,881 |
| Acquisition of short-term financial instruments | (65,500,605) | (119,852,680) |
| Acquisition of long-term financial instruments | - | (43,008) |
| Acquisition of long-term investment securities | (36,009,126) | (41,682,718) |
| Acquisition of equity method investments | (2,695,131,696) | (272,547,011) |
| Acquisition of long-term loans | - | (2,107,387) |
| Acquisition of other non-current assets | (67,138,052) | (15,975,956) |
| Acquisition of property, plant and equipment | (371,784,649) | (1,178,859,217) |
| Acquisition of intangible assets | (69,731,036) | (72,139,257) |
| **Net cash provided by (used in) investing activities** | **₩ (3,047,802,818)** | **₩ 336,773,351** |
| **Cash flows from financing activities** | | |
| Proceeds from short-term borrowings | ₩ 5,660,186,509 | ₩ 2,024,861,331 |
| Proceeds from debentures | - | 298,797,600 |
| Proceeds from long-term borrowings | 27,729,941 | 1,852,037 |
| Repayment of short-term borrowings | (3,124,141,994) | (1,439,540,723) |
| Dividends paid | (212,174,207) | (299,667,280) |
| **Net cash provided by financing activities** | **₩ 2,351,600,249** | **₩ 586,302,965** |
| **Net decrease in cash and cash equivalents** | **₩ (8,098,682)** | **₩ (34,913,938)** |
| Cash and cash equivalents at beginning of year | 632,578,218 | 667,492,156 |
| **Cash and cash equivalents at end of year** | **₩ 624,479,536** | **₩ 632,578,218** |

See accompanying notes to non-consolidated financial statements.



## Notes to Non-Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

### 1. Organization and Description of Business

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated in 1973, under the Commercial Code of the Republic of Korea, and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other items.

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩5,000, authorized: 160,000,000 shares) of common stock were issued and outstanding as of December 31, 2010. Of the total issued shares, the company's major stockholders Mong-Joon Chung, Hyundai Mipo Dockyard Co., Ltd., KCC Corporation, Mirae Asset Investment Management Co., Ltd. and National Pension Service own 10.80%, 7.98%, 6.72%, 4.27% and 3.68%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company's employees and directors of up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company's employees and directors as of December 31, 2010. The Company may also raise capital by obtaining the approval of the Board of Directors by issuing stock to old shareholders, issuing stock through a general public subscription totaling under 30% of outstanding shares, issuing stock through the issue of depository receipts under the Securities and Exchange Act and issuing stock to employees under certain circumstances.

### 2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies

**(a) Basis of Presenting Financial Statements**

The Company maintains its accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended solely for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

The Company prepare the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea and applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

**(b) Cash Equivalents**

The Company considers short-term deposits with maturities of three months or less on acquisition date to be cash equivalents.

**(c) Allowance for Doubtful Accounts**

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from trade receivables.

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

**(d) Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined by the moving-average method. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of goods sold and are deducted as an allowance from the carrying value of inventories.

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period for acquisition, construction or production as an expense in the period in which they are incurred.

**(e) Investments in Securities**

Classification

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, trading, or available-for-sale securities.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Initial recognition

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost.

Subsequent measurement and income recognition

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the statement of income in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost, less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the statement of income using the effective interest method.

Fair value information

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Company's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

Presentation

Trading securities, available-for-sale securities which mature within one year from the end of the reporting period or where the likelihood of disposal within one year from the end of the reporting period is probable, held-to-maturity securities which mature within one year from the end of the reporting period, short-term deposits and short-term loans are combined and presented as current assets. All other available-for-sale securities and held-to-maturity securities are combined and presented as long-term investments.

Impairment

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and there is no clear evidence that impairment is unnecessary.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined net of amortization had no impairment loss been recognized in the asset in prior years. For financial assets measured at amortized cost and available-for-sale assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

**(f) Investments in Associates and Subsidiaries**

Associates are entities of the Company and its subsidiaries over which the Company has the ability to significantly influence financial and operating policies. Significant influence is presumed if the Company holds, directly or indirectly, 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. Subsidiaries are entities controlled by the Company.

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on the acquisition date. Goodwill is calculated as the excess of the acquisition cost of an investment in an associates or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the statement of income, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary.

If the investee is a subsidiary, net income and net assets of the parent company's separate financial statements should agree with the parent company's share in the net income and net assets of the consolidated financial statements, except when the Company discontinues the application of the equity method due to its investment in a subsidiary being reduced to zero.

Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

**(g) Property, Plant and Equipment**

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law, which allowed for asset revaluation prior to the Law being revoked on December 31, 2000. Assets acquired through investment in kind or donations are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

# Notes to Non-Consolidated Financial Statements

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Significant additions or improvements extending the useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets as described below:

| | Useful lives (years) |
|---|---|
| Buildings and structures | 20, 40 |
| Machinery and equipment | 10 |
| Ships | 12 |
| Vehicles | 5 |
| Tools, furniture and fixtures | 5 |

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition or construction of property, plant and equipment as an expense in the period in which they are incurred.

The Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

As of January 1, 2009, the Company adopted the revaluation model in accordance with the revised Statements of Korea Accounting Standards ("SKAS") No. 5 Property, Plant and Equipment. The book value of land is accounted at fair value as of the date of the revaluation, less accumulated impairment loss. If an asset's book value increases as a result of the revaluation, the amount of the increase is recognized in other comprehensive income, of which the amount of the increase that reverses a revaluation decrease of the same asset previously recognized in profit and loss is recognized in profit and loss in the current period. On the other hand, if an asset's book value decreases as a result of the revaluation, that decrease is recognized as a loss for the current period, and the portion of the amount of decrease included in the credit balance in the revaluation surplus recorded in other comprehensive income is deducted from other comprehensive income.

### (h) Intangible Assets

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount.

The criteria for determining whether an incurred cost qualifies as an intangible asset and the periods of amortization for each classification of intangible asset are described below.

(i) Research and development costs

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the expense generation process into a research phase and a development phase. All costs incurred during the research phase are expensed as incurred. Costs incurred during the development phase are recognized as assets only if the following criteria are met for recognition in SKAS No. 3 Intangible Assets: (1) completion of the intangible asset is technically feasible so that it will be available for use or sale; (2) the Company has the intention and ability to complete the intangible asset and use or sell it; (3) there is evidence that the intangible asset will generate probable future economic benefit; (4) the Company has adequate technical, financial and other resources to complete the development of the intangible asset and the intangible asset will be available; and (5) the expenditures attributable to the intangible asset during its development can be reliably determined.

If the costs incurred fail to satisfy these criteria, they are recorded as expenses as incurred. Where development costs satisfy the criteria, they are capitalized and amortized on a straight-line basis over five years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overhead.

(ii) Other intangible assets

Other intangible assets, which consist of usage rights for the donated properties, are amortized using the straight-line method over 20~40 years.

### (i) Discount on Debentures

Discount on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest rate method over the life of the debentures. The amount amortized is included in interest expense.

### (j) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Company. The Company's estimated liability under the plan, which would be payable if all employees left at the end of the reporting period, is accrued in the accompanying non-consolidated statements of financial position. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated statements of financial position as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred reduced the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

### (k) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the foreign exchange rate at the end of the reporting period, with the resulting gains or losses recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the end of the reporting period. Foreign currency amounts in the statement of income are translated using an average rate, and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net of accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

### (l) Derivatives and Hedge Accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivatives are not closely related and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

# Notes to Non-Consolidated Financial Statements

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### Hedge accounting

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction, it is designated as a cash flow hedge.

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in fair values or cash flows of hedged items.

### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the statement of income in the periods in which the hedged item will affect income or expense. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

### Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of income.

### Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income.

### (m) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense generated by the provision is presented net of the amount of expected reimbursement.

### (n) Revenue Recognition

Revenues from long-term contracts, including shipbuilding contracts, are recognized using the percentage-of-completion method, measured by the units of work performed. Revenues from other sales are recognized upon delivery of goods.

Under the percentage-of-completion method, revenues are recognized based on the percentage of costs incurred (including man hours and raw material costs) over total estimated costs for each contract. As a result, the timing of revenue recognition of which the Company reports may differ materially from the timing of actual contract payments received. The Company's estimates reflect the most current information from construction activities. In addition, since most contracts are completed over several months, the timing of the recognition of related revenues could have a significant impact on quarterly operating results.

The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company are reflected as advances from customers. The expenditures incurred before the construction contract is entered into are recognized as prepaid construction costs if they are directly related to making a contract, separately identifiable and reliably measurable, and a contract is probable. The prepaid construction costs are transferred to construction cost at the commencement of the construction.

### (o) Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted.

Deferred tax is calculated using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carry-forwards and tax credit carry-forwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

Changes in deferred taxes due to a change in the tax rate, except for those related to items initially recognized outside profit or loss (either in other comprehensive income or directly in equity), are recognized as income in the current year.

### (p) Earnings per Share

Earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the period.

### (q) Use of Estimates

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 3. Restricted Financial Instruments

Financial instruments, which are restricted in use subject to withdrawal restrictions in relation to construction contracts as of December 31, 2010 and 2009, are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Short-term financial instruments | ₩ 1,467,606 | ₩ 16,989 |
| Long-term financial instruments | 1,450,948 | 3,224,878 |
| | ₩ 2,918,554 | ₩ 3,241,867 |

## 4. Inventories

Inventories as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Merchandise | ₩ 67,438,760 | ₩ 53,801,673 |
| Finished goods | 235,940,947 | 96,185,730 |
| Work-in-progress | 678,895,450 | 720,372,588 |
| Raw materials | 549,102,773 | 556,500,478 |
| Supplies | 18,122,046 | 16,308,403 |
| Materials-in-transit | 534,673,046 | 485,389,643 |
| | ₩ 2,084,173,022 | ₩ 1,928,558,515 |

The valuation of inventories as of December 31, 2010 and 2009 is summarized as follows:

(In thousands of won)

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Acquisition | Provision for inventory valuation | Book value | Acquisition | Provision for inventory valuation | Book value |
| Merchandise | ₩ 71,370,370 | ₩ 3,931,610 | ₩ 67,438,760 | ₩ 57,010,702 | ₩ 3,209,029 | ₩ 53,801,673 |
| Finished goods | 236,260,741 | 319,794 | 235,940,947 | 101,230,615 | 5,044,885 | 96,185,730 |
| Work-in-progress | 680,279,028 | 1,383,578 | 678,895,450 | 737,474,333 | 17,101,745 | 720,372,588 |
| | ₩ 987,910,139 | ₩ 5,634,982 | ₩ 982,275,157 | ₩ 895,715,650 | ₩ 25,355,659 | ₩ 870,359,991 |

Reversal of valuation loss was ₩19,721 million, which was deducted from cost of sales.

## 5. Other Current Assets

Other current assets as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Prepaid expenses | ₩ 172,299,764 | ₩ 203,375,407 |
| Other current deposits | 1,386,756 | 2,027,206 |
| | ₩ 173,686,520 | ₩ 205,402,613 |

## 6. Long-term Investment Securities

(a) Long-term investment securities, which consist of available-for-sale securities as of December 31, 2010 and 2009, are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| **Available-for-sale securities** | | |
| Listed equity securities | ₩ 1,367,622,677 | ₩ 998,391,388 |
| Non-marketable securities | 269,363,823 | 175,689,303 |
| | ₩ 1,636,986,500 | ₩ 1,174,080,691 |

(b) Listed equity securities stated at fair value included in long-term investment securities as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won, except percentage of ownership)

| | 2010 | | | 2009 |
|---|---|---|---|---|
| | Percentage of ownership | Acquisition cost | Book value | Book value |
| **Listed equity securities:** | | | | |
| Kia Motors Corporation | 0.02% | ₩ 2,681,616 | ₩ 4,465,197 | ₩ 1,769,312 |
| Korea Line Corporation | 1.90% | 55,130,663 | 8,166,200 | 12,803,603 |
| Tong Yang Securities | 0.00% | - | - | 47,840,616 |
| Mirae Asset Securities Co., Ltd. | 0.10% | 6,654,173 | 2,513,584 | 2,727,595 |
| Hyundai Elevator Co., Ltd. | 2.16% | 1,632,339 | 25,873,512 | 8,932,522 |
| Hyundai Motor Company * | 3.45% | 519,246,924 | 1,319,193,370 | 920,013,820 |
| Korea Environment Technology Co., Ltd. | 7.58% | 1,909,389 | 7,337,520 | 4,303,920 |
| Ssangyong Motor Co., Ltd. | 0.00% | 23,419 | 13,144 | - |
| HI Special Purpose Acquisition Company | 0.21% | 30,000 | 60,150 | - |
| | | ₩ 587,308,523 | ₩ 1,367,622,677 | ₩ 998,391,388 |

*The Company deposited 650,000 shares of its common stock with the Gunsan city government as a security guarantee for completion of a construction project.

## Notes to Non-Consolidated Financial Statements

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(c) Unlisted equity securities, beneficiary certificates and investments in capital included in long-term investment securities as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won, except percentage of ownership)

| | 2010 | | | 2009 |
|---|---|---|---|---|
| | Percentage of ownership | Acquisition cost | Book value | Book value |
| **Unlisted equity securities: *1** | | | | |
| Gangwon Football Club Co., Ltd. | 0.01% | ₩ 1,000 | ₩ 1,000 | ₩ 1,000 |
| Kuk Dong Heavy Conveyance Co., Ltd. | 7.50% | 501,720 | 501,720 | 501,720 |
| Novelis Korea Ltd. | 0.45% | 14,598,913 | 1,405,452 | 1,405,452 |
| Daehan Oil Pipeline Corporation | 6.39% | 14,511,802 | 14,511,802 | 14,511,802 |
| Dong-A Precision Machinery. Co., Ltd. | 0.01% | 35,640 | - | - |
| Doosan Capital Co., Ltd. *2 | 9.99% | 10,000,000 | 22,866,000 | 24,762,000 |
| Bexco, Ltd. | 7.96% | 9,460,000 | 9,460,000 | 9,460,000 |
| Chonggu Co., Ltd. | 0.00% | 188,260 | - | - |
| Postec Electronic Power Fund Co. | 1.75% | 500,000 | 500,000 | 500,000 |
| Hanwha Electric Venture Fund | 2.00% | 500,000 | 500,000 | 500,000 |
| Hyundai Research Institute | 14.40% | 1,440,000 | 1,440,000 | 1,440,000 |
| Hyundai Climate Control Co., Ltd. | 10.00% | 50,000 | 50,000 | 50,000 |
| Enova System Inc. | 1.43% | 1,314,583 | 1,314,583 | 1,314,583 |
| PT. Golden Hyundai Machinery *3 | 20.83% | 155,250 | 155,250 | 155,250 |
| HHI Mauritius Limited *3 | 100.00% | 122 | 122 | 122 |
| Hynix Semiconductor America Inc. | 1.33% | 34,525,619 | - | - |
| Hyundai Heavy Industries France SAS *3 | 100.00% | 22,787 | 22,787 | 22,787 |
| Hyundai (Malaysia) SDN BHD *3 | 100.00% | 17,286 | - | - |
| Hyundai Technologies Center Hungary Kft. *3 | 100.00% | 26,302 | 26,302 | 26,302 |
| KC Karpovsky BV | 10.00% | 2,443 | - | 2,443 |
| Korea Ship Finance Co., Ltd. | 2.36% | 200,000 | 200,000 | 200,000 |
| Nikorma Transport Limited | 11.50% | 10,914 | 10,914 | 10,914 |
| PHECO Inc. *3 | 100.00% | 2,303,555 | 236,621 | 236,621 |
| Kimpo Solar Co., Ltd. | 14.29% | 50,000 | 50,000 | - |
| OSX Construcao Naval S.A. | 10.01% | 29,968,867 | 29,968,867 | - |
| | | ₩ 120,385,063 | ₩ 83,221,420 | ₩ 55,100,996 |
| **Beneficiary certificates** | | 63,455,026 | 180,949,593 | 115,427,397 |
| **Investments in capital** | | 5,192,810 | 5,192,810 | 5,160,910 |
| | | ₩ 189,032,899 | ₩ 269,363,823 | ₩ 175,689,303 |

*1 The book values of unlisted equity securities were recorded at their acquisition cost because the fair values cannot be estimated reliably.

*2 The fair value was calculated by using the free cash flows to shareholders method and estimation of stock price distribution.

*3 In conformity with financial accounting standards in the Republic of Korea, the equity securities were not accounted for using the equity method of accounting since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets as of December 31, 2010 and 2009, is less than ₩10,000 million, are not material.

(d) Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of December 31, 2010 is summarized as follows:



(In thousands of won)

| | 2010 | | |
|---|---|---|---|
| | Balance at January 1, 2010 | Increase (decrease) | Balance at December 31, 2010 |
| Kia Motors Corporation | ₩ (711,597) | ₩ 2,102,790 | ₩ 1,391,193 |
| Korea Line Corporation | (33,015,107) | 33,015,107 | - |
| Tong Yang Securities | 3,527,406 | (3,527,406) | - |
| Mirae Asset Securities Co., Ltd. | (3,062,730) | (166,929) | (3,229,659) |
| Hyundai Elevator Co., Ltd. | 5,694,143 | 13,213,971 | 18,908,114 |
| Hyundai Motor Company | 312,598,179 | 311,360,049 | 623,958,228 |
| Korea Environment Technology Co., Ltd. | (323,006) | 2,366,208 | 2,043,202 |
| Ssangyong Motor Co., Ltd. | - | (8,015) | (8,015) |
| HI Special Purpose Acquisition Company | - | 23,517 | 23,517 |
| Doosan Capital Co., Ltd. | 11,514,360 | (1,478,880) | 10,035,480 |
| | ₩ 296,221,648 | ₩ 356,900,412 | ₩ 653,122,060 |
| **Beneficiary certificates** | 43,956,427 | 47,689,335 | 91,645,762 |
| | ₩ **340,178,075** | ₩ **404,589,747** | ₩ **744,767,822** |

Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of December 31, 2009, is summarized as follows:

(In thousands of won)

| | 2009 | | |
|---|---|---|---|
| **Equity securities:** | Balance at January 1, 2009 | Increase (decrease) | Balance at December 31, 2009 |
| Kia Motors Corporation | ₩ (1,640,817) | ₩ 929,220 | ₩ (711,597) |
| Korea Line Corporation | (26,925,588) | (6,089,519) | (33,015,107) |
| Tong Yang Securities | (14,974,952) | 18,502,358 | 3,527,406 |
| Mirae Asset Securities Co., Ltd. | (2,911,530) | (151,200) | (3,062,730) |
| SK Broadband Corporation | 5,084 | (5,084) | - |
| Hyundai Elevator Co., Ltd. | 6,535,032 | (840,889) | 5,694,143 |
| Hyundai Motor Company | (170,751,231) | 483,349,410 | 312,598,179 |
| Hyundai Corporation | 340,402 | (340,402) | - |
| Korea Environment Technology Co., Ltd. | - | (323,006) | (323,006) |
| Daehan Oil Pipeline Corporation | 12,120,881 | (12,120,881) | - |
| Doosan Capital Co., Ltd. | 11,214,840 | 299,520 | 11,514,360 |
| | ₩ (186,987,879) | ₩ 483,209,527 | ₩ 296,221,648 |
| **Subordinated bonds** | (1,734,668) | 1,734,668 | - |
| **Beneficiary certificates** | (7,914,149) | 51,870,576 | 43,956,427 |
| | ₩ **(196,636,696)** | ₩ **536,814,771** | ₩ **340,178,075** |

(e) The Company recognizes impairment losses when the recoverable amount of securities is less than the carrying amount or the acquisition cost. Impairment losses in the amount of ₩46,966,905 thousand were recognized during the year ended December 31, 2010.

## Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

### 7. Equity Method Investments

(a) Investments in companies accounted for using the equity method as of December 31, 2010 are summarized as follows:

(In thousands of won, except share data and percentage of ownership)

| Company | Number of shares | Percentage of ownership | Acquisition cost | Book value |
|---|---|---|---|---|
| Hyundai Oilbank Co., Ltd. *1 | 223,331,529 | 91.13% | ₩ 2,893,338,693 | ₩ 3,059,896,991 |
| Hyundai Finance Corporation *1 | 12,350,000 | 67.49% | 78,197,738 | 99,604,004 |
| Hyundai Samho Heavy Industries Co., Ltd. *1 | 37,967,000 | 94.92% | 204,259,700 | 2,521,330,622 |
| Hyundai Heavy Industries Co. Bulgaria *1 | 12,155,829 | 99.09% | 11,620,593 | 48,477,517 |
| New Korea Country Club | 16,457 | 20.00% | 500,000 | 4,379,248 |
| Hyundai Heavy Industries Europe N.V. *1 | 10 | 100.00% | 35,656,728 | 17,812,756 |
| Hyundai Vinashin Shipyard *1, 2, 3 | - | 10.00% | 2,543,678 | 26,057,614 |
| Hyundai Construction Equipment U.S.A. *1 | 23,900,000 | 100.00% | 26,712,810 | 6,344,545 |
| Vladivostok Business Center *1, 2 | - | 100.00% | 5,891,667 | 24,524,528 |
| HHI China Investment Co., Ltd. *1, 2 | - | 100.00% | 160,804,529 | 408,011,011 |
| Hyundai Merchant Marine Co., Ltd. (common stock) *4 | 23,424,037 | 16.35% | 404,039,118 | 461,102,841 |
| Hyundai Merchant Marine Co., Ltd. (preferred stock) *4 | 1,758,344 | 17.58% | 26,375,160 | 28,151,727 |
| Qinhuangdao Shouqin Metal Materials Co., Ltd. *2 | - | 20.00% | 67,658,226 | 106,913,874 |
| Hyundai Ideal Electric Co. *1 | 1,000 | 100.00% | 18,119,600 | 26,269,951 |
| Hyundai Financial Leasing Co., Ltd. *1, 2 | - | 41.26% | 37,622,743 | 48,679,279 |
| Hyundai Construction Equipment India Private Ltd. *1 | 17,184,775 | 100.00% | 39,354,139 | 23,111,115 |
| Wärtsilä-Hyundai Engine Company Ltd. *2 | - | 50.00% | 33,930,000 | 44,125,623 |
| Ulsan Hyundai Football Club Co., Ltd. | 2,800,000 | 100.00% | 14,000,000 | 3,070,386 |
| Hyundai Heavy Material Service *1 | 29,600,000 | 100.00% | 148,000,000 | 158,229,616 |
| KAM Corporation | 23,520,000 | 49.00% | 117,600,000 | 112,004,485 |
| Grand China Hyundai Shipping Company Ltd. | 1,000,000 | 50.00% | 1,016,600 | 1,030,961 |
| KOMAS Corporation | 754,414 | 100.00% | 3,772,070 | 2,446,104 |
| Hotel Hyundai Co., Ltd. | 80,000 | 100.00% | 1,397,000 | 2,453,011 |
| Khorol Zerno Ltd. *2 | - | 80.79% | 6,641,016 | 6,125,571 |
| Hyundai Primorye Ltd. (formerly Khorol Agro Ltd.) *2 | - | 49.99% | 3,573,517 | 3,147,244 |
| Hyundai Corporation *5 | 4,992,782 | 22.36% | 105,134,024 | 100,388,980 |
| Hyundai-Avancis Co., Ltd. | 8,000,000 | 50.00% | 40,000,000 | 39,832,383 |
| Taebaek Wind Power Co., Ltd. | 703,500 | 35.00% | 3,517,500 | 3,445,752 |
| Muju Wind Power Co., Ltd. | 1,026,000 | 45.00% | 5,130,000 | 5,045,339 |
| Jinan Jangsu Wind Power Co., Ltd. | 25,600 | 32.00% | 128,000 | 128,000 |
| Pyeongchang Wind Power Co., Ltd. | 3,500 | 35.00% | 17,500 | 15,122 |
| Changjuk Wind Power Co., Ltd. | 34,400 | 43.00% | 172,000 | 171,103 |
| Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. *1, 2 | - | 100.00% | 33,183,027 | 30,462,756 |
| Hyundai Power Transformers USA Inc. *1 | 100 | 100.00% | 29,080,000 | 28,083,390 |
| | | | ₩ 4,558,987,376 | ₩ 7,450,873,449 |

Investments in companies accounted for using the equity method as of December 31, 2009 are summarized as follows:

(In thousands of won, except share data and percentage of ownership)

| Company | Number of shares | Percentage of ownership | Acquisition cost | Book value |
|---|---|---|---|---|
| Hyundai Oilbank Co., Ltd. | 51,773,884 | 21.13% | ₩ 312,249,753 | ₩ 373,656,633 |
| Hyundai Finance Corporation *1 | 12,350,000 | 67.49% | 78,197,738 | 90,726,376 |
| Hyundai Samho Heavy Industries Co., Ltd. *1 | 37,967,000 | 94.92% | 204,259,700 | 1,817,689,776 |
| Hyundai Heavy Industries Co. Bulgaria *1 | 12,155,829 | 99.09% | 11,620,593 | 46,768,262 |
| New Korea Country Club | 16,457 | 20.00% | 500,000 | 4,045,252 |
| Hyundai Heavy Industries Europe N.V. *1 | 10 | 100.00% | 35,656,728 | 10,322,118 |
| Hyundai Vinashin Shipyard *1, 2, 3 | - | 10.00% | 2,543,678 | 20,148,716 |
| Hyundai Construction Equipment U.S.A. *1 | 23,900,000 | 100.00% | 26,712,810 | - |
| Vladivostok Business Center *1, 2 | - | 57.14% | 5,891,667 | - |
| HHI China Investment Co., Ltd. *1, 2 | - | 100.00% | 160,804,529 | 286,425,278 |
| Hyundai Merchant Marine Co., Ltd. (common stock) *4 | 23,424,037 | 17.60% | 404,039,118 | 360,633,965 |
| Hyundai Merchant Marine Co., Ltd. (preferred stock) *4 | 3,516,688 | 17.58% | 52,750,320 | 56,303,455 |
| Qinhuangdao Shouqin Metal Materials Co., Ltd. *2 | - | 20.00% | 67,658,226 | 128,357,731 |
| Hyundai Ideal Electric Co. *1 | 1,000 | 100.00% | 18,119,600 | 25,493,855 |
| Hyundai Financial Leasing Co., Ltd. *1, 2 | - | 66.02% | 37,622,743 | 44,416,791 |
| Hyundai Construction Equipment India Private Ltd. *1 | 17,184,775 | 100.00% | 39,354,139 | 22,226,238 |
| Wärtsilä Hyundai Engine Company Ltd. *2 | - | 50.00% | 33,930,000 | 40,496,305 |
| Ulsan Hyundai Football Club Co., Ltd. | 2,000,000 | 100.00% | 10,000,000 | 913,199 |
| Hyundai Heavy Material Service *1 | 29,600,000 | 100.00% | 148,000,000 | 122,135,871 |
| KAM Corporation | 23,520,000 | 49.00% | 117,600,000 | 117,667,618 |
| Grand China Hyundai Shipping Company Ltd. | 1,000,000 | 50.00% | 1,016,600 | 1,045,336 |
| KOMAS Corporation | 754,414 | 100.00% | 3,772,070 | 1,634,795 |
| Hotel Hyundai Co., Ltd. | 80,000 | 100.00% | 1,397,000 | 1,806,723 |
| Khorol Zerno Ltd. *2 | - | 67.60% | 5,546,562 | 5,380,910 |
| Khorol Agro Ltd. *2 | - | 49.99% | 2,335,741 | 2,196,010 |
| Hyundai Corporation | 4,992,782 | 22.36% | 105,134,024 | 105,134,024 |
| Taebaek Wind Power Co., Ltd. | 703,500 | 35.00% | 3,517,500 | 3,482,618 |
| | | | ₩ 1,890,230,839 | ₩ 3,689,107,855 |

*1 Company subsidiary.

*2 Number of shares is not presented because they are non-par stock.

*3 Since the percentage of ownership of the Company and its subsidiary is more than 20% and the Company has the ability to significantly influence financial and operating policy decision, equity securities are accounted for using the equity method.

*4 Since the percentage of ownership of the Company and its subsidiary is more than 20% and the Company has the ability to significantly influence financial and operating policy decision, equity securities are accounted for using the equity method. In addition, the closing common stock price of Hyundai Merchant Marine Co., Ltd. on the stock market of the Republic of Korea was ₩38,550 per share at December 31, 2010. Its preferred stock has no market price because it is unlisted.

*5 The closing common stock price of Hyundai Corporation on the stock market of the Republic of Korea was ₩25,650 per share at December 31, 2010.

## Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

(b) Changes in goodwill for equity method accounted investments for the year ended December 31, 2010 are summarized as follows:

(In thousands of won)

| Company | Balance at January 1, 2010 | Increase | Amortized amount | Balance at December 31, 2010 |
|---|---|---|---|---|
| Hyundai Oilbank Co., Ltd. | ₩ 25,428,599 | ₩ 995,955,671 | ₩ (23,411,640) | ₩ 997,972,630 |
| Hyundai Merchant Marine Co., Ltd. (common stock) | 20,259,048 | - | (16,495,697) | 3,763,351 |
| Qinhuangdao Shouqin Metal Materials Co., Ltd. | 5,681,673 | - | (2,843,063) | 2,838,610 |
| Hotel Hyundai Co., Ltd. | 315,760 | - | (78,940) | 236,820 |
| Khorol Zerno Ltd. | 1,185,644 | - | (253,776) | 931,868 |
| Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.) | 721,863 | - | (157,074) | 564,789 |
| Hyundai Corporation | 72,334,654 | - | (14,466,931) | 57,867,723 |
| Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. | - | 7,688,942 | (768,894) | 6,920,048 |
| | ₩ 125,927,241 | ₩ 1,003,644,613 | ₩ (58,476,015) | ₩ 1,071,095,839 |

(c) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2010 are summarized as follows:

(In thousands of won)

| Company | Balance at January 1, 2010 | Net income (loss) | Accumulated other comprehensive income | Other increase (decrease) | Balance at December 31, 2010 |
|---|---|---|---|---|---|
| Hyundai Oilbank Co., Ltd. | ₩ 373,656,633 | ₩ 98,931,637 | ₩ 21,067,687 | ₩ 2,566,241,034 | ₩ 3,059,896,991 |
| Hyundai Finance Corporation | 90,726,376 | 8,029,351 | 2,083,277 | (1,235,000) | 99,604,004 |
| Hyundai Samho Heavy Industries Co., Ltd. | 1,817,689,776 | 785,148,937 | (43,541,091) | (37,967,000) | 2,521,330,622 |
| Hyundai Heavy Industries Co. Bulgaria | 46,768,262 | 8,778,511 | (4,867,940) | (2,201,316) | 48,477,517 |
| New Korea Country Club | 4,045,252 | 383,996 | - | (50,000) | 4,379,248 |
| Hyundai Heavy Industries Europe N.V. | 10,322,118 | 10,281,360 | (2,790,722) | - | 17,812,756 |
| Hyundai Vinashin Shipyard | 20,148,716 | 7,658,038 | (564,140) | (1,185,000) | 26,057,614 |
| Hyundai Construction Equipment U.S.A. | - | 6,981,685 | (637,140) | - | 6,344,545 |

(Continued)

(In thousands of won)

| Company | Balance at January 1, 2010 | Net income (loss) | Accumulated other comprehensive income | Other increase (decrease) | Balance at December 31, 2010 |
|---|---|---|---|---|---|
| Vladivostok Business Center | - | 138,263,211 | (113,738,683) | - | 24,524,528 |
| HHI China Investment Co., Ltd. | 286,425,278 | 113,843,137 | 7,742,596 | - | 408,011,011 |
| Hyundai Merchant Marine Co., Ltd. (common stock) | 360,633,965 | 75,230,777 | 36,950,117 | (11,712,018) | 461,102,841 |
| Hyundai Merchant Marine Co., Ltd. (preferred stock) | 56,303,455 | 1,055,006 | - | (29,206,734) | 28,151,727 |
| Qinhuangdao Shouqin Metal Materials Co., Ltd. | 128,357,731 | (22,262,136) | 818,279 | - | 106,913,874 |
| Hyundai Ideal Electric Co. | 25,493,855 | 1,409,892 | (633,796) | - | 26,269,951 |
| Hyundai Financial Leasing Co., Ltd. | 44,416,791 | 8,170,128 | (3,907,640) | - | 48,679,279 |
| Hyundai Construction Equipment India Private Ltd. | 22,226,238 | 492,775 | 392,102 | - | 23,111,115 |
| Wärtsilä-Hyundai Engine Company Ltd. | 40,496,305 | 3,629,318 | - | - | 44,125,623 |
| Ulsan Hyundai Football Club Co., Ltd. | 913,199 | (1,821,269) | (21,544) | 4,000,000 | 3,070,386 |
| Hyundai Heavy Material Service | 122,135,871 | 3,741,942 | 32,351,803 | - | 158,229,616 |
| KAM Corporation | 117,667,618 | (5,663,133) | - | - | 112,004,485 |
| Grand China Hyundai Shipping Company Ltd. | 1,045,336 | 10,644 | (25,019) | - | 1,030,961 |
| KOMAS Corporation | 1,634,795 | 811,309 | - | - | 2,446,104 |
| Hotel Hyundai Co., Ltd. | 1,806,723 | 646,288 | - | - | 2,453,011 |
| Khorol Zerno Ltd. | 5,380,910 | 33,610 | (383,403) | 1,094,454 | 6,125,571 |
| Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.) | 2,196,010 | (141,660) | (144,882) | 1,237,776 | 3,147,244 |
| Hyundai Corporation | 105,134,024 | (4,678,040) | (67,004) | - | 100,388,980 |
| Hyundai-Avancis Co., Ltd. | - | 24,383 | (192,000) | 40,000,000 | 39,832,383 |
| Taebaek Wind Power Co., Ltd. | 3,482,618 | (36,866) | - | - | 3,445,752 |
| Muju Wind Power Co., Ltd. | - | (84,661) | - | 5,130,000 | 5,045,339 |
| Jinan Jangsu Wind Power Co., Ltd. | - | - | - | 128,000 | 128,000 |
| Pyeongchang Wind Power Co., Ltd. | - | (2,378) | - | 17,500 | 15,122 |
| Changjuk Wind Power Co., Ltd. | - | (897) | - | 172,000 | 171,103 |
| Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. | - | (2,264,564) | (455,706) | 33,183,026 | 30,462,756 |
| Hyundai Power Transformers USA Inc. | - | (395,041) | (601,569) | 29,080,000 | 28,083,390 |
| | ₩ 3,689,107,855 | ₩ 1,236,205,290 | ₩ (71,166,418) | ₩ 2,596,726,722 | ₩ 7,450,873,449 |

(d) Gain or loss on valuation of investment securities is accounted for after eliminating unrealized gains (losses) from inter-company transactions. As of December 31, 2010 and 2009, eliminated unrealized gains under the equity method of accounting are ₩79,113 million and ₩119,825 million, respectively.

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

(e) Equity securities accounted for using the equity method as of December 31, 2010 are valued based on the financial statements of the investees as of the same reporting period, which were neither audited nor reviewed by an external auditor. Details of net asset value after adjustment for consistency of the Company's accounting policy as of December 31, 2010 are summarized as follows:

(In thousands of won)

| | 2010 | | |
|---|---|---|---|
| Company | Net asset value before adjustments | Adjustments | Net asset value after adjustments |
| Hyundai Oilbank Co., Ltd. * | ₩ 2,171,472,250 | ₩ (109,547,889) | ₩ 2,061,924,361 |
| Hyundai Finance Corporation | 99,604,004 | - | 99,604,004 |
| Hyundai Samho Heavy Industries Co., Ltd. * | 3,241,652,129 | (708,141,043) | 2,533,511,086 |
| Hyundai Heavy Industries Co. Bulgaria | 48,477,517 | - | 48,477,517 |
| New Korea Country Club | 4,379,248 | - | 4,379,248 |
| Hyundai Heavy Industries Europe N.V. | 28,249,407 | - | 28,249,407 |
| Hyundai Vinashin Shipyard | 26,057,614 | - | 26,057,614 |
| Hyundai Construction Equipment U.S.A. | 14,401,352 | - | 14,401,352 |
| Vladivostok Business Center | 24,524,528 | - | 24,524,528 |
| HHI China Investment Co., Ltd. * | 275,645,425 | 170,474,828 | 446,120,253 |
| Hyundai Merchant Marine Co., Ltd. (common stock) | 457,339,490 | - | 457,339,490 |
| Hyundai Merchant Marine Co., Ltd. (preferred stock) | 28,151,727 | - | 28,151,727 |
| Qinhuangdao Shouqin Metal Materials Co., Ltd. | 104,075,265 | - | 104,075,265 |
| Hyundai Ideal Electric Co. | 26,269,951 | - | 26,269,951 |
| Hyundai Financial Leasing Co., Ltd. | 48,679,279 | - | 48,679,279 |
| Hyundai Construction Equipment India Private Ltd. | 30,140,650 | - | 30,140,650 |
| Wärtsilä-Hyundai Engine Company Ltd. | 44,288,810 | - | 44,288,810 |
| Ulsan Hyundai Football Club Co., Ltd. | 3,070,386 | - | 3,070,386 |
| Hyundai Heavy Material Service | 159,775,760 | - | 159,775,760 |
| KAM Corporation | 112,004,485 | - | 112,004,485 |
| Grand China Hyundai Shipping Company Ltd. | 1,030,961 | - | 1,030,961 |
| KOMAS Corporation | 4,037,134 | - | 4,037,134 |
| Hotel Hyundai Co., Ltd. | 2,216,191 | - | 2,216,191 |
| Khorol Zerno Ltd. | 5,193,704 | - | 5,193,704 |
| Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.) | 2,582,454 | - | 2,582,454 |
| Hyundai Corporation | 42,521,256 | - | 42,521,256 |
| Hyundai-Avancis Co., Ltd. | 39,832,383 | - | 39,832,383 |
| Taebaek Wind Power Co., Ltd. | 3,445,752 | - | 3,445,752 |
| Muju Wind Power Co., Ltd. | 5,045,339 | - | 5,045,339 |
| Jinan Jangsu Wind Power Co., Ltd. | 128,000 | - | 128,000 |
| Pyeongchang Wind Power Co., Ltd. | 15,122 | - | 15,122 |
| Changjuk Wind Power Co., Ltd. | 171,103 | - | 171,103 |
| Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. | 23,542,708 | - | 23,542,708 |
| Hyundai Power Transformers USA Inc. | 28,083,390 | - | 28,083,390 |
| | ₩ 7,106,104,774 | ₩ (647,214,104) | ₩ 6,458,890,670 |

* The Company has adjusted for material differences in accounting principle for similar transactions and accounting events between the Company and investees.

(f) Financial information for equity-accounted investments as of and for the year ended December 31, 2010 is summarized as follows:

(In millions of won)

| Company | Assets | Liabilities | Sales | Net income (loss) |
|---|---|---|---|---|
| Hyundai Oilbank Co., Ltd. | ₩ 7,169,732 | ₩ 4,786,774 | ₩ 10,327,008 | ₩ 307,169 |
| Hyundai Finance Corporation | 182,521 | 34,929 | 12,549 | 6,873 |
| Hyundai Samho Heavy Industries Co., Ltd. | 7,648,415 | 4,233,184 | 4,316,560 | 828,691 |
| Hyundai Heavy Industries Co. Bulgaria | 62,369 | 13,445 | 75,739 | 8,792 |
| New Korea Country Club | 27,930 | 6,033 | 12,067 | 1,934 |
| Hyundai Heavy Industries Europe N.V. | 80,593 | 52,344 | 185,426 | 1,769 |
| Hyundai Vinashin Shipyard | 358,514 | 97,938 | 345,296 | 76,608 |
| Hyundai Construction Equipment U.S.A. | 96,400 | 81,999 | 310,178 | 5,452 |
| Vladivostok Business Center | 25,682 | 1,157 | 12,478 | 34,275 |
| HHI China Investment Co., Ltd. | 309,496 | 33,851 | 10,452 | 22,552 |
| Hyundai Merchant Marine Co., Ltd. | 8,819,315 | 5,849,948 | 8,086,981 | 379,941 |
| Qinhuangdao Shouqin Metal Materials Co., Ltd. | 2,239,929 | 1,719,553 | 1,372,615 | (90,305) |
| Hyundai Ideal Electric Co. | 39,143 | 12,873 | 51,324 | 1,253 |
| Hyundai Financial Leasing Co., Ltd. | 953,693 | 835,718 | 63,705 | 15,053 |
| Hyundai Construction Equipment India Private Ltd. | 96,137 | 65,996 | 93,106 | 1,215 |
| Wärtsilä-Hyundai Engine Company Ltd. | 229,504 | 140,926 | 130,990 | 7,585 |
| Ulsan Hyundai Football Club Co., Ltd. | 4,106 | 1,036 | 18,682 | 1,767 |
| Hyundai Heavy Material Service | 323,529 | 163,753 | 583,160 | 4,527 |
| KAM Corporation | 448,704 | 220,123 | 68,447 | (11,533) |
| Grand China Hyundai Shipping Company Ltd. | 2,062 | - | - | 39 |
| KOMAS Corporation | 4,059 | 22 | 413 | 252 |
| Hotel Hyundai Co., Ltd. | 5,868 | 3,652 | 30,187 | 719 |
| Khorol Zerno Ltd. | 9,090 | 2,661 | 2,257 | 330 |
| Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.) | 5,188 | 22 | 173 | 30 |
| Hyundai Corporation | 1,013,514 | 823,341 | 3,633,796 | 45,328 |
| Hyundai-Avancis Co., Ltd. | 80,807 | 1,136 | - | (55) |
| Taebaek Wind Power Co., Ltd. | 9,858 | 13 | - | (111) |
| Muju Wind Power Co., Ltd. | 11,250 | 38 | - | (188) |
| Jinan Jangsu Wind Power Co., Ltd. | 400 | - | - | - |
| Pyeongchang Wind Power Co., Ltd. | 43 | - | - | (7) |
| Changjuk Wind Power Co., Ltd. | 399 | - | - | (1) |
| Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. | 55,004 | 31,461 | 1,706 | (2,128) |
| Hyundai Power Transformers USA Inc. | 29,745 | 1,662 | - | (395) |

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 8. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2010 and 2009 is summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Buildings and structures | ₩ 3,967,946,407 | ₩ 3,929,329,068 |
| Machinery and equipment | 3,313,661,846 | 2,945,351,323 |
| Ships | 211,489,020 | 211,401,759 |
| Vehicles | 37,482,581 | 35,148,987 |
| Tools, furniture and fixtures | 1,292,881,658 | 1,223,446,599 |
| | ₩ 8,823,461,512 | ₩ 8,344,677,736 |
| Less: Accumulated depreciation | (3,866,827,891) | (3,474,615,628) |
| | ₩ 4,956,633,621 | ₩ 4,870,062,108 |
| Land | 2,857,626,759 | 2,871,363,776 |
| Construction-in-progress | 185,897,898 | 404,096,925 |
| | ₩ 8,000,158,278 | ₩ 8,145,522,809 |

(b) Changes in property, plant and equipment for the year ended December 31, 2010 are summarized as follows:

(In thousands of won)

| 2010 | Land | Buildings | Structures | Machinery and equipment | Others | Total |
|---|---|---|---|---|---|---|
| **Beginning of period** | **₩ 2,871,363,776** | **₩ 2,508,553,039** | **₩ 1,420,776,029** | **₩ 2,945,351,323** | **₩ 1,874,094,270** | **₩ 11,620,138,437** |
| Acquisition and other | 17,653,698 | 38,324,677 | 62,929,400 | 376,357,297 | (125,106,670) | 370,158,402 |
| Disposal | (31,390,715) | (61,353,008) | (1,283,730) | (8,046,774) | (21,236,443) | (123,310,670) |
| **End of period** | **₩ 2,857,626,759** | **₩ 2,485,524,708** | **₩ 1,482,421,699** | **₩ 3,313,661,846** | **₩ 1,727,751,157** | **₩ 11,866,986,169** |
| Depreciation | - | (63,651,905) | (36,237,950) | (201,408,112) | (138,747,079) | (440,045,046) |
| Accumulated depreciation | - | (496,806,241) | (246,146,392) | (1,959,851,737) | (1,164,023,521) | (3,866,827,891) |
| | **₩ 2,857,626,759** | **₩ 1,988,718,467** | **₩ 1,236,275,307** | **₩ 1,353,810,109** | **₩ 563,727,636** | **₩ 8,000,158,278** |

Changes in property, plant and equipment for the year ended December 31, 2009 are summarized as follows:

(In thousands of won)

| 2009 | Land | Buildings | Structures | Machinery and equipment | Others | Total |
|---|---|---|---|---|---|---|
| **Beginning of period** | **₩ 1,586,959,576** | **₩ 2,132,007,385** | **₩ 917,521,401** | **₩ 2,404,550,660** | **₩ 2,343,057,412** | **₩ 9,384,096,434** |
| Acquisition and other | 49,377,185 | 405,362,786 | 503,983,391 | 672,021,254 | (446,430,398) | 1,184,314,218 |
| Disposal | (1,458,224) | (28,817,132) | (728,763) | (131,220,591) | (22,532,744) | (184,757,454) |
| Revaluation | 1,236,485,239 | - | - | - | - | 1,236,485,239 |
| **End of period** | **₩ 2,871,363,776** | **₩ 2,508,553,039** | **₩ 1,420,776,029** | **₩ 2,945,351,323** | **₩ 1,874,094,270** | **₩ 11,620,138,437** |
| Depreciation | - | (60,944,830) | (29,758,181) | (176,653,522) | (132,337,629) | (399,694,162) |
| Accumulated depreciation | - | (450,454,692) | (210,230,889) | (1,766,226,220) | (1,047,703,827) | (3,474,615,628) |
| | **₩ 2,871,363,776** | **₩ 2,058,098,347** | **₩ 1,210,545,140** | **₩ 1,179,125,103** | **₩ 826,390,443** | **₩ 8,145,522,809** |

(c) The Company adopted the revaluation model in the previous year and land was stated at revalued amounts as of December 1, 2009. The fair value of the assets was based on the results of an appraisal by the Korea Appraisal Board, an independent appraiser. As the result of land revaluation, the book value of land was ₩2,871,364 million including revaluation gain of ₩1,236,485 million as of December 31, 2009. In addition, other comprehensive income of ₩964,458 million and deferred tax liabilities of ₩272,027 million were recognized, respectively.

(d) A substantial portion of buildings, machinery and equipment were insured against fire and other casualty losses up to approximately ₩2,981,712 million as of December 31, 2010. The Company maintains insurance coverage against fire and other casualty losses of up to ₩11,591,833 million for ships and sea structures under construction. Insurance proceeds of ₩3,036,019 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of December 31, 2010.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩19,450,108 million as of December 31, 2010. The Company also maintains insurance on cargo against damage and claims losses of up to ₩8,217,176 million for products being exported and imported as of December 31, 2010.

(e) Construction-in-progress included the Ihwa industrial park project and a new building for the Offshore & Engineering Division as of December 31, 2010.

(f) As of December 31, 2010 and 2009, the officially declared value of land owned by the Company was ₩1,458,571 million and ₩1,461,080 million, respectively, as announced by the Minister of Construction and Transportation.

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 9. Intangible Assets

(a) Intangible assets as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Development costs | ₩ 289,986,715 | ₩ 270,363,193 |
| Usage right for donated properties | 16,056,565 | 18,095,848 |
| | ₩ 306,043,280 | ₩ 288,459,041 |

(b) Changes in intangible assets for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | Development cost | | Usage right for donated properties | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Beginning balance** | ₩ 270,363,193 | ₩ 242,161,165 | ₩ 18,095,848 | ₩ 20,135,131 |
| Capitalized | 69,731,036 | 72,139,257 | - | - |
| Amortized | (50,107,514) | (43,937,229) | (2,039,283) | (2,039,283) |
| **Ending balance** | ₩ 289,986,715 | ₩ 270,363,193 | ₩ 16,056,565 | ₩ 18,095,848 |

Research costs amounting to ₩27,049 million and ₩19,629 million, and ordinary development costs amounting to ₩87,310 million and ₩72,728 million are included in selling, general and administrative expenses for the years ended December 31, 2010 and 2009, respectively. Amortized development costs of ₩50,107 million and ₩43,937 million are included in the cost of sales and selling, general and administrative expenses for the years ended December 31, 2010 and 2009, respectively.

## 10. Other Non-current Assets

Other non-current assets as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Guarantee deposits | ₩ 11,942,657 | ₩ 9,933,113 |
| Long-term loans | 261,947 | 2,019,948 |
| Other non-current assets | 156,312,475 | 93,812,840 |
| | ₩ 168,517,079 | ₩ 105,765,901 |

## 11. Other Current Liabilities

Other current liabilities as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Income tax withholdings | ₩ 247,748,503 | ₩ 213,815,078 |
| Unearned revenues | - | 38,523 |
| Provision for construction losses | 25,634,346 | 15,279,818 |
| | ₩ 273,382,849 | ₩ 229,133,419 |

## 12. Debentures, Short-term and Long-term Borrowings

(a) Debentures as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| Description | Maturity | Annual interest rate | 2010 | 2009 |
|---|---|---|---|---|
| 112th non-guaranteed debentures | 2012.04.13 | 5.43% | ₩ 300,000,000 | ₩ 300,000,000 |

(b) Short-term borrowings as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| Type of borrowing | Lender | Annual interest rate | 2010 | 2009 |
|---|---|---|---|---|
| Network loan | Export-Import Bank of Korea | 3.70% | ₩ 74,966,175 | ₩ 301,916,695 |
| Collaborated guaranty loan | Korea Exchange Bank (KEB) | - | - | 103,118,913 |
| Pre-shipment credit | Export-Import Bank of Korea | - | - | 180,285,000 |
| General loan | Shinhan Capital Co., Ltd. | 4.45% | 1,500,000,000 | - |
| Commercial Paper | Shinhan Bank | 2.99% | 1,000,000,000 | - |
| Usance L/C | Shinhan Bank and others | 0.91~2.63% | 540,015,512 | - |
| | | | ₩ 3,114,981,687 | ₩ 585,320,608 |

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(c) Long-term borrowings denominated in foreign currency as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won and in dollars)

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| Type of borrowing | Annual interest rate | Foreign currency | Won equivalent | Foreign currency | Won equivalent |
| General loan in foreign currency from | | | | | |
| Export-Import Bank of Korea | 2.04% | $ 23,272,500 | ₩ 26,505,050 | $ - | ₩ - |
| Business loans from Korea National Oil Corporation | 1.75% | 5,494,765 | 6,335,709 | 4,888,535 | 5,166,671 |
| | | $ 28,767,265 | ₩ 32,840,759 | $ 4,888,535 | ₩ 5,166,671 |

(d) The general loan in foreign currency from the Export-Import Bank of Korea in relation to the Company's overseas resource development business has a three-year maturity. Payment will be made in lump sum on the loan maturity date of October 1, 2013. The maturities of long-term borrowings from Korea National Oil Corporation as of December 31, 2010 are not readily determinable since the long-term borrowing is paid by installment in the event of successful commercial production by the Company's oil development business.

## 13. Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| **Estimated retirement and severance benefits at beginning of year** | ₩ 1,226,148,845 | ₩ 1,251,923,440 |
| Payments | (664,236,835) | (164,508,686) |
| Accrual for retirement and severance benefits | 231,060,703 | 138,734,091 |
| **Estimated retirement and severance benefits at end of year** | ₩ 792,972,713 | ₩ 1,226,148,845 |
| Deposit for severance benefit insurance | (683,855,161) | (1,022,621,872) |
| Transfer to National Pension Fund | (16,048,370) | (29,049,871) |
| **Net balance at end of year** | ₩ 93,069,182 | ₩ 174,477,102 |

The Company maintains an employees' severance benefit trust arrangement with Kyobo Life Insurance Co., Ltd. and other insurance companies. Under this arrangement, the Company has made a deposit in the amount equal to 86.2% and 83.4% of the reserve balances of retirement and severance benefits as of December 31, 2010 and 2009, respectively. This deposit is to be used to guarantee the required payments to retirees and is accounted for as a reduction in the reserve balance.

## 14. Other Long-term Liabilities

Other long-term liabilities as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Deposits received | ₩ 13,498,575 | ₩ 13,922,260 |
| Provision for construction warranties | 30,013,337 | 29,070,486 |
| Provision for product warranties | 52,155,981 | 34,473,840 |
| | ₩ 95,667,893 | ₩ 77,466,586 |

## 15. Commitments and Contingencies

(a) The Company has entered into bank overdraft agreements with eight banks amounting to ₩238,000 million as of December 31, 2010.

(b) As of December 31, 2010, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 2,423,538 thousand.

(c) In order to secure bank loans and construction contract performance guarantees, the Company has provided ten blank notes and one check as of December 31, 2010.

(d) The outstanding balance of note receivables guaranteed by the importers' Government or others and sold to financial institutions with recourse is USD 13,377 thousand, equivalent to ₩15,235 million, as of December 31, 2010. The Company's outstanding balance of trade receivables sold with recourse amount to ₩4,642 million as of December 31, 2010.

(e) As of December 31, 2010, the Company is contingently liable for loan guarantees of its foreign subsidiaries and associated companies amounting to USD 193,330 thousand. The Company has provided certain performance guarantees for bareboat charter amounting to USD 475,226 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Furthermore, the Company has provided performance guarantees for the mining business in relation to overseas resource developments amounting to USD 61,925 thousand and guarantees on debt obligations for the business participant, Sherritt International Corporation, amounting to USD 24,058 thousand. The Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries, for the construction of four ships at a contract amount of USD 534,179 thousand.

(f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩1,230,877 million and USD 12,721,988 thousand by various banking facilities.

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(g) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales amounts and the payment of imported raw materials, the Company has entered into currency forward contracts with 22 banks, including Korea Exchange Bank. As of December 31, 2010, the valuation and gain (loss) on transaction of the forward contracts are summarized as follows:

(In millions of won and in thousands of foreign currency)

| | Description | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Cash flow hedge | | Fair value hedge | | For trading | | Total |
| **Contract amount** | USD | 1,110,027 | USD | 10,548,497 | USD | 1,475,478 | USD | 13,134,002 |
| | EUR | 32,718 | EUR | 78,724 | | - | EUR | 111,442 |
| | KRW | 55,800 | | - | KRW | 1,035,521 | KRW | 1,091,321 |
| Adjustment to sales | ₩ | 47,982 | ₩ | (695,935) | ₩ | - | ₩ | (647,953) |
| Non-operating income (expense) | | (1,728) | | 35,733 | | (201,057) | | (167,052) |
| Other comprehensive income | | 16,684 | | - | | - | | 16,684 |
| Firm commitment assets | | - | | 789,012 | | - | | 789,012 |
| Firm commitment liabilities | | - | | 261,615 | | - | | 261,615 |
| Derivatives assets | | | | | | | | 301,201 |
| Derivatives liabilities | | | | | | | | 708,876 |

As of December 31, 2010, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩12,706 million, net of deferred tax adjustment of ₩3,978 million, as gain (loss) on valuation of derivatives in accumulated other comprehensive income (net of tax effect). The expected period of exposure to cash flow risk, where cash flow hedge accounting is applied, is approximately within 24 months, and the amount among gain (loss) on valuation of foreign exchange contracts that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2010 is ₩14,007 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current income.

In relation to the shipbuilding contracts in foreign currency as of December 31, 2010, the Company entered into foreign exchange forward contracts and accounted for such contracts as fair value hedges. As a result, the net balance of firm commitment assets and liabilities was ₩527,397 million and related gain and loss on valuation of the firm commitments were recorded as ₩110,064 million and ₩493,079 million, respectively, in non-operating income and expenses.

Gain and loss on derivatives transactions that mature within the current year are recorded as ₩279,613 million and ₩312,471 million, respectively in non-operating income and expenses. Gain and loss on valuation of derivatives are recorded as ₩388,295 million and ₩139,474 million, respectively in non-operating income and expenses.

In relation to valuation of derivatives that have not reached their maturity dates, the Company accounted for derivative assets of ₩301,201 million and derivative liabilities of ₩708,876 million.

## 16. Litigation

(a) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a share option agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company partially won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million. However, the Company did not accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advance payments and reimbursable expenses from those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Company did not accept the Court's decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Company won its claim amounting to ₩241,200 million of principal, excluding ₩4,300 million and accrued interest thereon, and recovered ₩86,200 million. The Company filed an appeal to the Supreme Court claiming the principal amount of ₩4,300 million, which was pending as of December 31, 2010. In addition, on October 22, 2009, the Company won its claim for incidental expenses amounting to ₩50,300 million of principal and accrued interest thereon and recovered ₩73,700 million. However, Hynix Semiconductor Inc. filed an appeal, which was pending as of December 31, 2010.

(b) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent associate. The Company's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Company filed administrative litigation. However, the Company lost the first trial on January 5, 2011 and appealed on January 25, 2011. The litigation is currently in pendency.

(c) As of March 25, 2008, the Company determined that International Petroleum Investment Co. (hereafter "IPIC"), the major shareholder of Hyundai Oilbank, breached the contract between shareholders entered into with the former shareholders of the Hyundai Group, including Hyundai Heavy Industries, and notified IPIC of its intention to exercise IPIC's deemed offer (stock purchase option) against its 171,557,695 shares (70%) of Hyundai Oilbank. The Company also filed for arbitration at the International Court of Arbitration of the International Chamber of Commerce (hereafter "ICC"), in regard to IPIC's breach of contract and exercise of the deemed offer. On November 12, 2009, the arbitrators passed judgment on IPIC's significant breach of contract, ordering IPIC to sell its 171,557,695 shares (70%) of Hyundai Oilbank at the price of ₩15,000 per share in accordance with the deemed offer. However, IPIC did not accept the arbitration decision and on December 2, 2009, the Company filed a lawsuit in Seoul Central District Court for approval of the arbitration decision and enforcement claim. On July 9, 2010, the Company won its claim. The Company paid the acquisition cost on August 12, 2010 and IPIC issued 171,557,695 shares of Hyundai Oilbank to the Company.

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## 17. Capital Surplus

Capital surplus as of December 31, 2010 and 2009 is summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Paid-in capital in excess of par value | ₩ 843,324,390 | ₩ 843,324,390 |
| Asset revaluation surplus | 1,862,725,081 | 1,862,725,081 |
| Other capital surplus | 201,192,243 | 116,321,606 |
| Capital surplus on valuation of equity method investments | 47,207,001 | 47,207,001 |
| | ₩ 2,954,448,715 | ₩ 2,869,578,078 |

Other capital surplus is composed of ₩33,381 million of gain on disposal of investment in Hyundai Mipo Dockyard Co., Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩145,981 million of gain on disposal of treasury stock (net of tax effect) and ₩21,830 million of gain on business combination and others.

Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

## 18. Retained Earnings

Retained earnings as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Appropriated: | | |
| Legal reserve *1 | ₩ 190,000,000 | ₩ 190,000,000 |
| Reserve for corporate development *3 | 30,000,000 | 30,000,000 |
| Reserve for research and human development *2 | 446,666,667 | 223,333,334 |
| Reserve for facilities *2 | 78,270,000 | 78,270,000 |
| Other voluntary reserves *4 | 5,546,834,248 | 3,835,852,998 |
| Unappropriated retained earnings | 3,761,139,702 | 2,146,488,800 |
| | ₩ 10,052,910,617 | ₩ 6,503,945,132 |

*1 The Korean Commercial Code requires the Company to appropriate as a legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to offset accumulated deficit, if any, through a resolution of shareholders.

*2 Under provisions of the Tax Exemption and Reduction Control Law, an amount equivalent to the amount of income tax benefits to which the Company is entitled in connection with tax credits for research and human development and investment for facilities is required to be recorded as a reserve for research and human development and investment for facilities.

*3 Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.

*4 Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make a reserve for overseas market development, a reserve for export losses and a reserve for research and human development by appropriating retained earnings. These reserves are voluntary reserves, which are available for the payment of dividends when these reserves are properly reversed.

## 19. Capital Adjustments

(a) As of December 31, 2010 and 2009, treasury stock is summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Treasury stock | ₩ (1,400,454,947) | ₩ (1,463,972,001) |

(b) As of December 31, 2010 and 2009, other capital adjustments are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Treasury stock owned by subsidiaries | ₩ (103,565,209) | ₩ (103,565,209) |
| Capital adjustments on valuation of equity method investments | (201,435,151) | (130,257,265) |
| | ₩ (305,000,360) | ₩ (233,822,474) |

## 20. Dividends

(a) Dividends paid for 2010 and 2009 are summarized as follows:

(In thousands of won, except par value)

| Year | Description | Number of shares * | Par value | Dividend rate | Cash dividend | Net income | Dividend to net income |
|---|---|---|---|---|---|---|---|
| 2010 | Common stock | 61,288,440 | ₩ 5,000 | 140 % | ₩ 429,019,080 | ₩ 3,761,139,692 | 11.41% |
| 2009 | Common stock | 60,621,202 | ₩ 5,000 | 70 % | ₩ 212,174,207 | ₩ 2,146,488,795 | 9.88% |

* Net of 14,711,560 shares and 15,378,798 shares of treasury stock as of December 31, 2010 and 2009, respectively.

(b) Yields to market price of paid dividend for 2010 and 2009 are summarized as follows:

(In won)

| Year | Description | Dividend per share | Standard price * | Yield to market price |
|---|---|---|---|---|
| 2010 | Common stock | ₩ 7,000 | ₩ 446,100 | 1.57% |
| 2009 | Common stock | ₩ 3,500 | ₩ 166,625 | 2.10% |

* The standard price is the arithmetic mean of the closing price in the seven-day period ending two days prior to the closing date of the shareholders' list.

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 21. Sales and Cost of Sales

(a) Sales and cost of sales, by major industry segment, for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Sales | Cost of sales | Sales | Cost of sales |
| Shipbuilding | ₩ 7,849,210,418 | ₩ 6,353,403,786 | ₩ 9,002,641,240 | ₩ 8,315,385,400 |
| Offshore & Engineering | 3,412,757,735 | 2,606,361,177 | 3,423,456,902 | 2,876,852,425 |
| Industrial Plant & Engineering | 2,644,514,489 | 2,239,862,118 | 1,897,902,597 | 1,607,475,797 |
| Engine & Machinery | 2,834,722,044 | 2,013,806,450 | 2,771,471,593 | 1,886,042,960 |
| Electro Electric Systems | 3,242,218,942 | 2,553,343,440 | 2,712,142,548 | 2,138,464,785 |
| Construction Equipment | 2,274,585,216 | 1,831,676,448 | 1,190,382,638 | 1,037,553,822 |
| Others | 147,172,470 | 136,392,820 | 144,199,218 | 135,667,732 |
| | ₩ 22,405,181,314 | ₩ 17,734,846,239 | ₩ 21,142,196,736 | ₩ 17,997,442,921 |

(b) The Company's outstanding contracts as of December 31, 2010 are summarized as follows:

(In millions of won)

| | Shipbuilding | Others | Total |
|---|---|---|---|
| **Beginning of period** * | ₩ 20,320,557 | ₩ 18,340,636 | ₩ 38,661,193 |
| Increase during the period | 4,678,942 | 15,016,879 | 19,695,821 |
| Recognized as revenue in current income | (7,849,210) | (14,555,971) | (22,405,181) |
| **End of period** | ₩ 17,150,289 | ₩ 18,801,544 | ₩ 35,951,833 |

* The beginning of period balances for backlog were recalculated with the appropriate exchange rate in effect at the end of 2009.

As of December 31, 2010, in connection with construction contracts, the Company has provided a certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (see note 15).

(c) As of December 31, 2010, accumulated cost of construction and others connected with construction in progress by major industry segments are summarized as follows:

(In millions of won)

| | Accumulated cost of construction | Accumulated profit and loss | Advances on construction contracts | Accounts receivable | Billed receivables on construction contracts | Unbilled receivables on construction contracts |
|---|---|---|---|---|---|---|
| Shipbuilding | ₩ 12,606,097 | ₩ 3,122,692 | ₩ 3,968,842 | ₩ 3,048,381 | ₩ 37,488 | ₩ 3,010,893 |
| Offshore & Engineering | 8,124,401 | 1,785,482 | 804,009 | 454,491 | 148,138 | 306,353 |
| Industrial Plant & Engineering | 7,197,827 | 939,535 | 620,603 | 392,497 | 24,012 | 368,485 |
| Engine & Machinery | 4,557,155 | 2,153,713 | 672,630 | 507,625 | 263,019 | 244,606 |
| Electro Electric Systems | 45,518 | 21,350 | 74,596 | 1,178,127 | 979,416 | 198,711 |
| Construction Equipment * | - | - | 1,289 | 286,121 | 286,121 | - |
| Others * | - | - | 705 | 627,974 | 627,974 | - |
| | ₩ 32,530,998 | ₩ 8,022,772 | ₩ 6,142,674 | ₩ 6,495,216 | ₩ 2,366,168 | ₩ 4,129,048 |

* Industry segment recognized revenues by delivery basis.

** For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩25,634 million.

## 22. Income Taxes

(a) The Company was subject to income taxes on taxable income at the following normal tax rates for the years ended December 31, 2010 and 2009.

| | | | Tax rates |
|---|---|---|---|
| **Taxable income** | **2009** | **2010 & 2011** | **Thereafter** |
| Up to ₩200 million | 12.1% | 11.0% | 11.0% |
| Over ₩200 million | 24.2% | 24.2% | 22.0% |

In December 2009, the Korean government postponed the reduction of the corporate income tax rate (including resident tax) from 24.2% to 22%, until 2012.

(b) Income tax expense for the years ended December 31, 2010 and 2009 is summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Current income tax | ₩ 887,966,602 | ₩ 376,247,930 |
| Changes in deferred taxes due to temporary differences | 251,227,263 | 786,712,935 |
| Changes in deferred taxes directly adjusted in equity | (116,005,218) | (661,386,425) |
| Income tax expense | ₩ 1,023,188,647 | ₩ 501,574,440 |
| Income before income taxes | ₩ 4,784,328,339 | ₩ 2,648,063,235 |
| **Effective tax rate** | 21.4% | 18.9% |

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(c) For the years ended December 31, 2010 and 2009, the differences between income before income taxes in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are summarized as follows:

(In thousands of won)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Income before income taxes** | ₩ | **4,784,328,339** | ₩ | **2,648,063,235** |
| Temporary differences | | (1,221,041,975) | | (912,311,773) |
| Non-temporary differences | | 173,788,955 | | 54,546,759 |
| **Taxable income** | ₩ | **3,737,075,319** | ₩ | **1,790,298,221** |

(d) Details of changes in and effects on income tax expense of cumulative temporary differences for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Balance at January 1, 2010 | | Balance at December 31, 2010 | | Balance at January 1, 2009 | | Balance at December 31, 2009 |
| Equity method investments * | ₩ | (1,177,392,317) | ₩ | (1,946,795,088) | ₩ | (788,296,615) | ₩ | (1,177,392,317) |
| Impairment losses on investments | | 66,610,466 | | 113,577,371 | | 74,558,133 | | 66,610,466 |
| Reserve for research and human development | | (446,666,667) | | (470,000,000) | | (223,333,333) | | (446,666,667) |
| Allowance for doubtful accounts * | | 98,663,216 | | 230,639,235 | | 158,039,183 | | 98,663,216 |
| Accrued income | | (825,057) | | (490,045) | | (56,690,429) | | (825,057) |
| Revaluation of land | | (1,236,485,239) | | (1,225,406,608) | | - | | (1,236,485,239) |
| Currency forward contracts | | (196,074,996) | | (291,771,264) | | 710,042,273 | | (196,074,996) |
| Others | | (310,701,132) | | (772,305,920) | | 396,816,190 | | (310,701,132) |
| | ₩ | (3,202,871,726) | ₩ | (4,362,552,319) | ₩ | 271,135,402 | ₩ | (3,202,871,726) |
| Tax rate | | | | 22.0% (24.2%) | | | | 22.0% (24.2%) |
| Deferred tax assets (liabilities), end of period | | | ₩ | (958,975,689) | | | ₩ | (707,748,426) |
| Deferred tax assets (liabilities), beginning of period | | | | (707,748,426) | | | | 78,964,509 |
| Changes in deferred taxes on temporary differences | | | ₩ | (251,227,263) | | | ₩ | (786,712,935) |

* Temporary differences amounting to ₩(952,330) million, which were not recognized as deferred taxes, were deducted.

(e) Deferred tax assets and liabilities that were directly charged or credited to accumulated other comprehensive income as of December 31, 2010 are summarized as follows:

(In thousands of won)

| | | 2010 |
|---|---|---|
| Other capital surplus | ₩ | (27,095,903) |
| Capital adjustments on valuation of equity method investments | | 20,075,814 |
| Gain and loss on valuation of investment securities | | (114,115,057) |
| Changes in equity arising on application of the equity method | | (10,171,176) |
| Negative changes in equity arising on application of the equity method | | 4,947,807 |
| Gain and loss on valuation of derivatives | | 7,915,998 |
| Gain and loss on revaluation of land | | 2,437,299 |

(f) Deferred tax assets (liabilities) as of December 31, 2010 are summarized as follows:

(In thousands of won)

| | | Current | | Non-current | | Total |
|---|---|---|---|---|---|---|
| Accumulated temporary differences | ₩ | 35,719,159 | ₩ | (4,398,271,478) | ₩ | (4,362,552,319) |
| Tax rate | | 24.2% | | 22.0% | | 22.0% (24.2%) |
| Tax effects | ₩ | 8,644,036 | ₩ | (967,619,725) | ₩ | (958,975,689) |
| Deferred tax assets (liabilities) | ₩ | 8,644,036 | ₩ | (967,619,725) | ₩ | (958,975,689) |

## 23. Comprehensive Income

Comprehensive income for the years ended December 31, 2010 and 2009 is summarized as follows:

(In thousands of won)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Net income** | ₩ | **3,761,139,692** | ₩ | **2,146,488,795** |
| **Other comprehensive income** | | **384,456,003** | | **2,251,127,210** |
| Gain on valuation of investment securities, net of tax effects of ₩(114,115,057) in 2010 and ₩(150,814,023) in 2009 | | 404,589,747 | | 534,950,242 |
| Changes in equity arising on application of the equity method, net of tax effects of ₩(10,171,176) in 2010 and ₩(71,908,150) in 2009 | | 33,025,683 | | 263,582,652 |
| Negative changes in equity arising on application of the equity method, net of tax effects of ₩4,947,807 in 2010 and ₩(37,616,832) in 2009 | | (19,938,337) | | 133,368,767 |
| Gain (loss) on valuation of derivatives, net of tax effects of ₩7,915,998 in 2010 and ₩(113,087,528) in 2009 | | (24,579,758) | | 354,767,062 |
| Gain (loss) on revaluation of land, net of tax effects of ₩2,437,299 in 2010 and ₩(272,026,753) in 2009 | | (8,641,332) | | 964,458,487 |
| **Comprehensive income** | ₩ | **4,145,595,695** | ₩ | **4,397,616,005** |

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 24. Earnings per Share

Basic earnings per share for the years ended December 31, 2010 and 2009 are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| Net income (In thousands of won) | ₩ 3,761,139,692 | ₩ 2,146,488,795 |
| Weighted average number of common shares outstanding (In thousands of shares) | 60,853 | 60,118 |
| Earnings per share (In won) | ₩ 61,807 | ₩ 35,705 |

## 25. Transactions and Balances with Related Companies

(a) The Company is the ultimate holding company and its subsidiaries as of December 31, 2010 are summarized as follows:

| Subsidiary | Business fields |
|---|---|
| Hyundai Samho Heavy Industries Co., Ltd. | Shipbuilding |
| Hyundai Mipo Dockyard Co., Ltd. | Shipbuilding |
| Hyundai Oilbank Co., Ltd. | Manufacturing of petroleum products |
| Hyundai Finance Corporation | Granting of credit |
| Hyundai Venture Investment Corporation | Granting of credit |
| Hyundai Futures Corporation | Entrust and brokerage of futures transactions |
| HVIC IT Fund 3rd | Other financial intermediation |
| Hyundai Investment Fund 1 on Patent Technology | Other financial intermediation |
| Mipo Engineering Co., Ltd. | Other engineering services |
| Hyundai Heavy Industries Europe N.V. | Sale of machinery equipment for construction |
| Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. | Sale and manufacture of machinery equipment for construction |
| Hyundai Construction Equipment U.S.A. | Sale of machinery equipment for construction |
| Hyundai Heavy Industries Co. Bulgaria | Sale and manufacture of transformers |
| Vladivostok Business Center | Hotel operation |
| Hyundai Vinashin Shipyard | Repairing of ships |
| Yantai Hyundai Moon Heavy Industries Co., Ltd. | Sale and manufacture of industrial boilers |
| Hyundai Heavy Industries (China) Electric Co., Ltd. | Sale and manufacture of switchboards for electric distribution |
| Hyundai Jiangsu Construction Machinery Co., Ltd. | Sale and manufacture of machinery equipment for construction |
| HHI China Investment Co., Ltd. | Holding company |
| Changzhou Hyundai Hydraulic Machinery Co., Ltd. | Sale and manufacture of hydraulic cylinders for construction equipment |
| Hyundai Technologies Center Hungary Kft. | Research and development of technology |
| Hyundai (Malaysia) SDN BHD | Trading |
| HHI Mauritius Limited | Manufacturing |
| PHECO Inc. | Design services for offshore facilities |
| Hyundai Heavy Industries France SAS | Manufacturing |
| Hyundai Ideal Electric Co. | Sale and manufacture of industrial electric equipment |
| Hyundai Financial Leasing Co., Ltd. | Financial and operating leases |
| Hyundai Construction Equipment India Private Ltd. | Sale and manufacture of machinery equipment for construction |
| Ulsan Hyundai Football Club Co., Ltd. | Football club |
| Hyundai Heavy Material Service | Sale and manufacture of machinery equipment for shipbuilding |
| KOMAS Corporation | Shipbuilding |
| HI Investment & Securities Co., Ltd. | Securities brokerage |
| HI Management Co., Ltd | Asset management |
| Hotel Hyundai Co., Ltd. | Hotel operation |
| Khorol Zerno Ltd. | Agriculture |
| Muju Wind Power Co., Ltd. | Wind power generation |
| Changjuk Wind Power Co., Ltd. | Wind power generation |
| Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. | Sale and manufacture of wheel loaders |
| Hyundai Power Transformers USA, Inc. | Sale and manufacture of industrial electric equipment |
| Weihai Hyundai Wind Power Technology Co., Ltd. | Sale and manufacture of facilities for wind power generation |
| HDOS Pte. Ltd. | Trading of crude oil and petroleum products, chartering |

(Continued)

(b) Significant transactions and outstanding balances with subsidiaries and associated companies within the Hyundai Heavy Industries Group of companies and former associated companies of Hyundai Group for the year ended and as of December 31, 2010 are summarized as follows:

(In thousands of won)

| | Sales | Purchases | Receivables | Payables |
|---|---|---|---|---|
| Hyundai Samho Heavy Industries Co., Ltd. | ₩ 622,175,759 | ₩ 4,267,707 | ₩ 231,256,072 | ₩ 1,976,599 |
| Hyundai Mipo Dockyard Co., Ltd. | 392,051,504 | 16,073,096 | 122,538,638 | 1,855,021 |
| Hyundai Oilbank Co., Ltd. | 22,162,049 | 2,999,041 | 727,484 | 917,564 |
| Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. | 157,555,652 | 1,915,927 | 30,149,423 | 37,536 |
| Hyundai Heavy Industries Europe N.V. | 141,468,368 | 4,484,868 | 9,584,335 | 386,843 |
| Hyundai Construction Equipment U.S.A. | 185,168,146 | 1,935,546 | 25,502,872 | 209,698 |
| Hyundai Jiangsu Construction Machinery Co., Ltd. | 458,801,092 | 1,098,000 | 110,055,707 | 79,675 |
| Yantai Hyundai Moon Heavy Industries Co., Ltd. | - | 82,632,252 | - | - |
| Hyundai Heavy Industries (China) Electric Co., Ltd. | 6,555,016 | 16,891,382 | 4,445,690 | 1,150,797 |
| Hyundai Heavy Material Service | 9,354,188 | 412,347,517 | 2,456,143 | 63,617,743 |
| Hyundai Construction Equipment India Private Ltd. | 75,390,841 | 774,640 | 47,191,016 | 64,935 |
| Hyundai Ideal Electric Co. | 11,308,540 | 527,033 | 5,659,591 | 186,706 |
| | ₩ **2,081,991,155** | ₩ **545,947,009** | ₩ **589,566,971** | ₩ **70,483,117** |

(c) The Company has entered into rental agreements (deposits received of ₩990 million) with Hyundai Mipo Dockyard Co., Ltd. and other associated companies as of December 31, 2010. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other associated companies, including joint construction contracts with HSHI (see note 15).

(d) Compensation for key management of the Company for the year ended December 31, 2010 was ₩3,625,399 thousand. Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Company.

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 26. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are summarized as follows:

| | | Foreign currencies (In thousands) | | Korean won (In thousands) | |
|---|---|---|---|---|---|
| Account | Currency | 2010 | 2009 | 2010 | 2009 |
| **Assets:** | | | | | |
| Cash and cash equivalents | USD | 176,327 | 277,682 | ₩ 200,818,724 | ₩ 324,221,114 |
| | EUR | 317 | 261 | 479,873 | 436,968 |
| | Others | | | 32,477,289 | 25,287,818 |
| Accounts and notes receivable - trade | USD | 3,812,964 | 3,366,566 | 4,342,584,853 | 3,930,802,482 |
| | EUR | 235,487 | 133,112 | 356,432,387 | 222,867,012 |
| | Others | | | 304,281,202 | 50,664,138 |
| Accounts receivable - other | USD | 13,914 | 69,816 | 15,846,262 | 81,516,735 |
| | EUR | 118 | 152 | 178,452 | 254,014 |
| | Others | | | 170,363 | 1,228,246 |
| Long-term accounts and notes receivable - trade | USD | 410,450 | 67,131 | 467,461,491 | 78,382,153 |
| Long-term financial instruments & others | USD | 33,474 | 33,319 | 38,123,544 | 38,903,482 |
| | EUR | 2,026 | 1,993 | 3,066,446 | 3,336,687 |
| | Others | | | 1,767,161 | 1,718,940 |
| | | | | ₩ 5,763,688,047 | ₩ 4,759,619,789 |
| **Liabilities:** | | | | | |
| Accounts and notes payable - trade | USD | 375,683 | 239,544 | ₩ 427,865,426 | ₩ 279,691,138 |
| | EUR | 30,449 | 29,624 | 46,087,338 | 49,598,089 |
| | Others | | | 27,888,990 | 29,068,430 |
| Short-term borrowings | USD | 319,497 | - | 363,875,240 | - |
| | EUR | 74,250 | - | 112,384,217 | - |
| | Others | | | 63,756,055 | - |
| Long-term borrowings | USD | 28,767 | 4,489 | 32,840,759 | 5,166,671 |
| Accounts payable - other & others | USD | 164,872 | 197,281 | 187,772,444 | 230,345,491 |
| | EUR | 25,364 | 15,469 | 38,391,039 | 25,899,375 |
| | Others | | | 59,436,887 | 33,472,623 |
| | | | | ₩ 1,360,298,395 | ₩ 653,241,817 |

## 27. Segment Information

The Company is classified into industry segments of Shipbuilding, Offshore & Engineering, Industrial Plant & Engineering, Engine & Machinery, Electro Electric Systems, Construction Equipment and others on the basis of product, manufacturing process characteristics and market and sales methods. Financial information by industry segment is summarized as follows:

(a) As of and for the year ended December 31, 2010.

(In thousands of won)

| | Shipbuilding | Offshore & Engineering | Industrial Plant & Engineering | Engine & Machinery | Electro Electric Systems | Construction Equipment | Others |
|---|---|---|---|---|---|---|---|
| **Sales** | ₩ 7,849,210,418 | ₩ 3,412,757,735 | ₩ 2,644,514,489 | ₩ 2,834,722,044 | ₩ 3,242,218,942 | ₩ 2,274,585,216 | ₩ 147,172,470 |
| **Operating income** | 1,176,521,097 | 737,806,568 | 325,355,410 | 739,733,451 | 531,433,467 | 191,040,590 | (262,454,369) |
| **Tangible and intangible assets** | 2,265,840,368 | 544,055,256 | 32,853,295 | 935,943,134 | 666,316,275 | 193,921,912 | 3,667,271,318 |
| **Depreciation** | (162,863,558) | (57,296,453) | (6,339,273) | (89,322,876) | (45,282,896) | (22,120,057) | (56,819,933) |

(b) As of and for the year ended December 31, 2009.

(In thousands of won)

| | Shipbuilding | Offshore & Engineering | Industrial Plant & Engineering | Engine & Machinery | Electro Electric Systems | Construction Equipment | Others |
|---|---|---|---|---|---|---|---|
| **Sales** | ₩ 9,002,641,240 | ₩ 3,423,456,902 | ₩ 1,897,902,597 | ₩ 2,771,471,593 | ₩ 2,712,142,548 | ₩ 1,190,382,638 | ₩ 144,199,218 |
| **Operating income** | 532,372,130 | 462,688,727 | 245,456,361 | 808,516,177 | 453,102,965 | (29,642,594) | (249,919,847) |
| **Tangible and intangible assets** | 2,352,722,389 | 577,184,489 | 32,823,913 | 889,044,181 | 625,381,518 | 197,625,043 | 3,759,200,317 |
| **Depreciation** | (150,487,993) | (53,970,096) | (4,343,587) | (75,351,840) | (36,355,565) | (20,114,450) | (59,070,631) |

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 28. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ending December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Salaries | ₩ 305,896,412 | ₩ 284,957,403 |
| Accrual for retirement and severance benefits | 34,312,658 | 20,692,285 |
| Employee welfare | 69,812,130 | 70,534,297 |
| Advertising | 48,935,300 | 37,384,930 |
| Ordinary development costs | 87,310,379 | 72,727,985 |
| Accrual for allowance for doubtful accounts | 206,638,605 | 48,943,879 |
| Depreciation | 36,389,718 | 39,414,918 |
| Service charges | 81,188,755 | 87,083,387 |
| Transportation | 102,016,738 | 58,444,377 |
| Sales commissions | 63,434,541 | 54,544,572 |
| After-sale service expenses | 48,738,916 | 28,870,517 |
| Others | 146,224,709 | 118,581,346 |
| | ₩ 1,230,898,861 | ₩ 922,179,896 |

## 29. Results of Operations for the Last Interim Period

(In thousands of won except earnings per share)

| | 2010 4th Quarter | 2009 4th Quarter |
|---|---|---|
| Sales | ₩ 6,429,857,151 | ₩ 5,331,696,473 |
| Net income for the period | ₩ 1,061,007,731 | ₩ 721,318,978 |
| Earnings per share | ₩ 17,312 | ₩ 11,899 |

## 30. The Company's Environmental Standards and Policies

The Company has adopted and implemented an environmental management system, run by its environmental management group, to effectively manage the environmental impact of its operations. The Company has obtained ISO 14001 certification for its environmental management system from DNV-QA (Det Norske Veritas QA Ltd.) to ensure transparency in the environmental management system and prepare for the expected imposition of environmental standards-based trade barriers. To maintain and develop its environmental management system, the Company continuously works to minimize the environmental effects from its overall business activities, from research and development, purchasing, and production to transport and disposal by adopting advanced environmental management practices such as the periodic evaluation of the activities of the environment management group, environmental protection plans and the evaluation of environmental performance.

The Company operates air pollution control and wastewater treatment facilities to handle pollutants generated by its manufacturing operations. It has adopted its own environmental standards, which are twice as strict as current regulations in the Republic of Korea. In addition to maintaining emissions below 20% of the legal mandate, the Company has achieved a waste reclamation rate of 51% by minimizing the generation of waste and sorting it at the source. The Company also operates an incinerator equipped with advanced emissions control equipment that has the capacity to handle 400 tons of waste per day.

## 31. Employee Welfare and Contributions to Society

For employee welfare, the Company granted scholarship funds of ₩53,038 million for the middle school, high school and college age children of employees and ₩10,398 million for medical benefits, such as health examinations and medical treatment, to its employees and their families during the year ended December 31, 2010. In addition, the Company provided 16,000 apartment units for employee housing, achieving a 94% housing-supply ratio. The Company also operates seven cultural and arts centers, including the Hyundai Arts Center established in December 1998 to provide members of the community and its employees with a wide variety of cultural and leisure opportunities.

(In millions of won)

| | 2010 | 2009 |
|---|---|---|
| Support for employee development | ₩ 76,917 | ₩ 13,596 |
| Donations to social welfare and religious organizations | 16,837 | 5,432 |
| Donations for infrastructure and support of national and local governments | 1,014 | 83 |
| | ₩ 94,768 | ₩ 19,111 |

## 32. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Income before income taxes | ₩ 4,784,328,339 | ₩ 2,648,063,235 |
| Salaries and wages | 2,638,034,716 | 2,472,398,578 |
| Financial expenses | (82,097,382) | (133,138,279) |
| Rent | 15,905,609 | 25,288,708 |
| Taxes and dues | 16,381,800 | 16,026,109 |
| Depreciation and amortization | 440,045,046 | 399,694,162 |
| | ₩ 7,812,598,128 | ₩ 5,428,332,513 |

# Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

## 33. Non-cash Investing and Financing Activities

Significant non-cash investing and financing activities for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

| | 2010 | 2009 |
|---|---|---|
| Transfer of long-term trade accounts to current assets | ₩ 29,304,284 | ₩ 42,918,226 |
| Transfer of trade accounts to non-current assets | 419,227,577 | - |
| Transfer of construction-in-progress to plant assets | 416,179,719 | 1,263,083,487 |
| Capital adjustments on valuation of equity method investments | 71,177,886 | 1,223,737 |
| Gain and loss on valuation of available-for-sale securities | 362,262,688 | 534,950,242 |
| Changes in equity arising on application of the equity method | 33,025,683 | 263,582,652 |
| Negative changes in equity arising on application of the equity method | 19,938,337 | 133,368,767 |
| Gain and loss on valuation of derivatives | 24,579,758 | 354,767,062 |
| Gain and loss on revaluation of land | 8,641,332 | 964,458,487 |

## 34. Planning and Adoption of K-IFRS (Korean International Financial Reporting Standards)

(a) K-IFRS Adoption Plan and current status of progress

The Company subsequently plans to issue financial statements prepared in accordance with K-IFRS from 2011. The Company organized a task force team to perform preliminary analysis of the effects of K-IFRS adoption and establish accounting systems to apply the new accounting treatments, and trained its relevant personnel internally and externally. The task force team regularly reports the details and status of the adoption plan to its board of directors and management. The details of the K-IFRS Adoption Plan are as follows:

| Main Activities | Preparation Plan | State at December 31, 2010 |
|---|---|---|
| **Formation of the K-IFRS Establishment of the task force team and analysis of the likely effects of K-IFRS adoption** | Complete the K-IFRS adoption plan by the end of 2010. | June 2008: Established the K-IFRS adoption task force team. Oct. - Dec. 2008: Engaged an accounting firm to carry out an analysis of the likely effects of K-IFRS adoption. Apr. - Aug. 2009: Engaged an accounting firm to carry out an establishment of closing process and basic design of IT. |
| **Training** | Acquire the skills required for IFRS conversion by the end of 2010. | Oct. 2008 - present: Held training for in-charge staff (training provided by the Korean Accounting Standards Board). |
| **Alignment of accounting systems** | Complete the establishment of accounting systems to apply the new accounting treatments under K-IFRS by the end of 2010. | Sep. - Dec. 2009: Completed the analysis of the scope of required changes to the system. |

(b) Differences between accounting under K-IFRS and under K-GAAP expected to have a material effect on the Company are as follows:

| Area | | K-IFRS | Current K-GAAP |
|---|---|---|---|
| **First-time adoption of K-IFRS** | **Employee benefits** | All cumulative actuarial gains (losses) on defined benefit plans as of January 1, 2010 (the date of transition to K-IFRS) will be recognized as equity. | - |
| | **Equity method** | The book value under the previous GAAP would be utilized as the deemed cost and cost method would be applied after January 1, 2010 (the date of transition to K-IFRS). | The Company accounts for associates and subsidiaries using the equity method. |
| | **Property, plant and equipment** | The book value under the previous GAAP would be utilized as the deemed cost and cost method would be applied after January 1, 2010 (the date of transition to K-IFRS). | - |
| | **Borrowing costs** | Interest expenses are capitalized after January 1, 2010 (the date of transition to K-IFRS). | All interest is presented as expense. |
| **Employee benefits** | | Under the Projected Unit Credit method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation. | The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period. |
| **Allowance for doubtful accounts** | | Impairment losses for financial instruments (receivables and held-to-maturity investments) that are recorded at amortized cost are recognized when there is objective evidence that an impairment event has occurred. | The Company recognizes allowance for doubtful accounts by estimating bad debt losses on receivables with uncertain collection based on reasonable and objective criteria. |
| **Recognition of warranty costs in relation to percentage of completion method** | | The Company excludes expected warranty costs from costs incurred to date for determining the stage of completion. | The Company includes expected warranty costs in costs incurred to date for determining the stage of completion and recognizes warranty costs as a cost in the fiscal year of the contract's completion. |
| **Classification of due from customers for contract work and due to customers for contract work** | | If costs incurred plus recognized profits (less recognized losses) exceed progress billings, the net amount shall be accounted for due from customers for contract work. However, if progress billings exceed costs incurred plus recognized profits (less recognized losses), the net amount shall be accounted for due to customers for contract work. | - |
| **Change in revenue recognition criteria of large engines for vessels** | | Revenue is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer. | Revenue is recognized based on the percentage of completion method. |
| **Reclassification of guarantee deposits for membership, etc.** | | The Company recognizes guarantee deposits for membership as intangible assets with an indefinite useful life. | Guarantee deposits for membership are recognized as other non-current assets. |

# Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

## To the President of Hyundai Heavy Industries Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2010. The Company's management is responsible for designing and maintaining an effective IACS and for its assessment of the effectiveness of the IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of the IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review, in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Report on the Operations of the Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, the IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operations of the Internal Accounting Control System as of December 31, 2010 is not prepared in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2010. We did not review the Company's IACS subsequent to December 31, 2010. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

February 28, 2011

Notice to Readers
This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2010 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.



# Report on the Operations of Internal Accounting Control System

English translation of a Report Originally Issued in Korean

## To the Board of Directors and Internal Auditor (Audit Committee) of Hyundai Heavy Industries Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2010.

The Company's management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

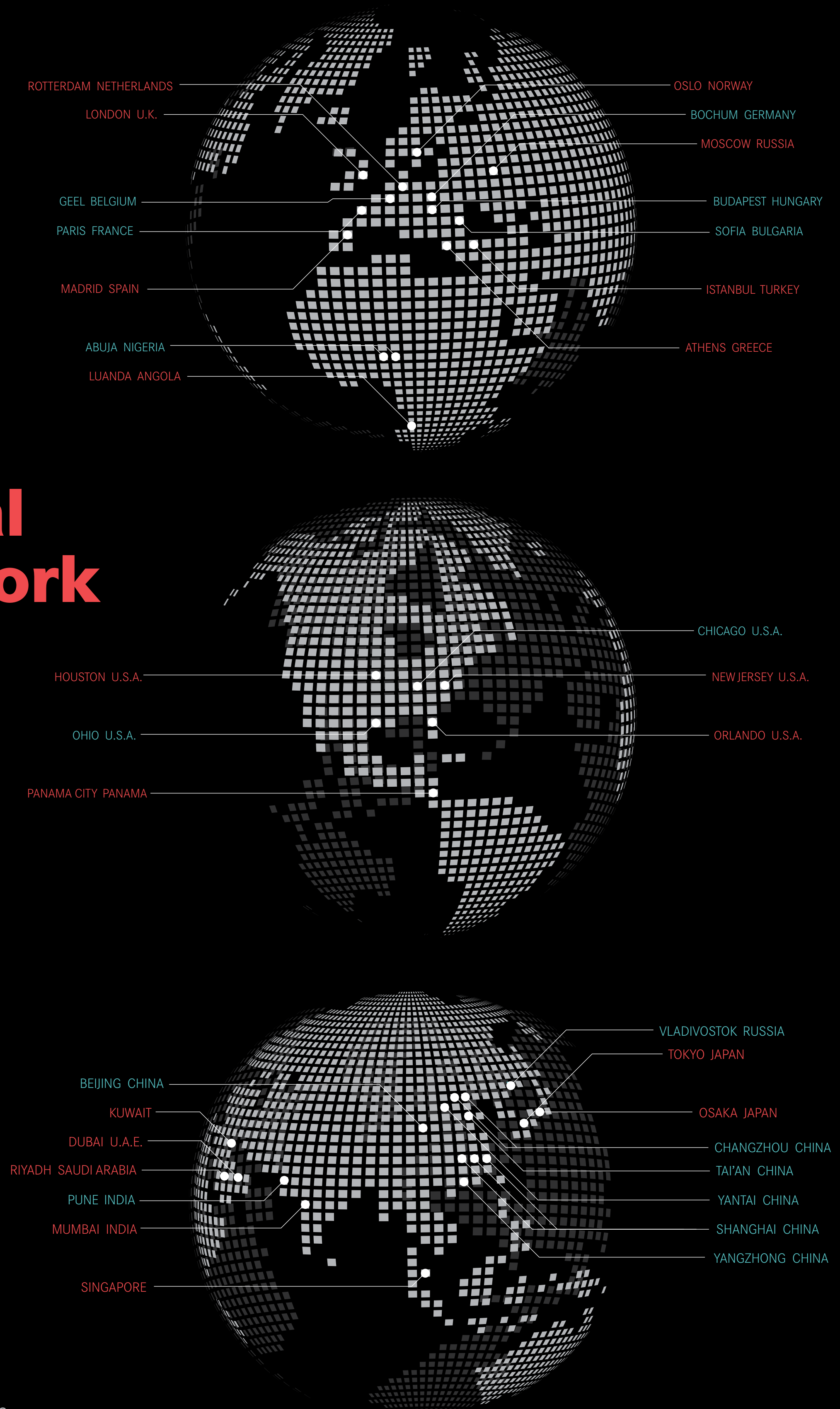
Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

January 27, 2011

**Sul Kwang-woo,** Internal Accounting Control Officer

**Lee Jai-seong,** Chief Executive Officer

# HHI **Global Network**




■ OFFICES

■ INCORPORATED FIRMS



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**MUMBAI**
5TH FLOOR, EAST QUADRANT
THE IL&FS FINANCIAL CENTRE
PLOT NO. C-22, G-BLOCK
BANDRA-KURLA COMPLEX
BANDRA(E), MUMBAI 400 051, INDIA
TEL: 91-22-2653-3420~26
FAX: 91-22-2653-3429~30

### MIDDLE EAST

**DUBAI**
205, BUILDING 4, EMAAR
SQUARE, SHEIKH ZAYED ROAD
POBOX 252458, DUBAI, UAE
TEL: 971-4-425-7995
FAX: 971-4-425-7996

**RIYADH**
OLAYA STREET, RIYADH, THE PLAZA
2nd FLOOR, OFFICE NO.230
KINGDOM OF SAUDI ARABIA
TEL: 966-5006-31123

**KUWAIT**
FLOOR 15, AL SOUR TOWER
AL SOUR STREET
AL-QIBLAH, KUWAIT
TEL: 965-9490-4864

### AFRICA

**LUANDA**
RUA LUCRECIA PAIM NO. 28/30
LUANDA, ANGOLA
TEL: 244-222-370-669
FAX: 244-222-370-667

## OVERSEAS INCORPORATED FIRMS

### EUROPE

**GEEL**
(HYUNDAI HEAVY INDUSTRIES
EUROPE N.V.) VOSSENDAAL
11, 2440 GEEL, BELGIUM
TEL: 32-14-56-2211
FAX: 32-14-59-3405

**SOFIA**
(HYUNDAI HEAVY INDUSTRIES CO.
- BULGARIA) 1271, SOFIA 41
ROJEN BLVD, BULGARIA
TEL: 359-2-809-3200, 3210, 3220
FAX: 359-2-803-3203, 3242

**BOCHUM**
(JAHNEL-KESTERMANN GETRIBEWRKE
GMBH) HUNSCHEIDTSTR. 116, 44789
BOCHUM, GERMANY
TEL: 49-234-339-332
FAX: 49-234-339-200

**PARIS**
(HYUNDAI HEAVY INDUSTRIES FRANCE
SAS) 17, RUE BEFFROY, 92200 NEUILLY-
SUR-SEINE, FRANCE
TEL: 33-1-4637-1761
FAX: 33-1-4637-1295

**BUDAPEST**
(HYUNDAI TECHNOLOGIES CENTER
HUNGARY LTD.) 1146, BUDAPEST
HERMINA UT 22, HUNGARY
TEL: 36-1-273-3730, 3733
FAX: 36-1-220-6708

**VLADIVOSTOK**
(HOTEL HYUNDAI VLADIVOSTOK)
29, SEMENOVSKAYA STREET
VLADIVOSTOK, 690091, RUSSIA
TEL: 7-4232-40-7300
FAX: 7-4232-40-7007

### NORTH AMERICA

**CHICAGO**
(HYUNDAI CONSTRUCTION
EQUIPMENT AMERICAS, INC.)
955 ESTES AVENUE
ELK GROVE VILLAGE, IL 60007, U.S.A.
TEL: 1-847-228-8847, 8832
FAX: 1-847-437-3574, 3572

**OHIO**
(HYUNDAI IDEAL ELECTRIC CO.)
330 EAST FIRST STREET
MANSFIELD, OH 44902, U.S.A.
TEL: 1-419-522-3611
FAX: 1-419-522-9386

### ASIA

**BEIJING**
(BEIJING HYUNDAI JINGCHENG
CONSTRUCTION MACHINERY CO., LTD.)
NO. 2, NANLI, LUGUOQIAO
FENGTAI DISTRICT, BEIJING, CHINA
TEL: 86-10-8321-8347~8
FAX: 86-10-8321-1353
8321-4730 (Factory)

**CHANGZHOU**
(HYUNDAI (JIANG SU) CONSTR-
UCTION MACHINERY CO., LTD.)
288, HEHAI WEST ROAD, XINBEI
DISTRICT, CHANGZHOU
JIANGSU, 213022, CHINA
TEL: 86-519-8519-1002, 1020
FAX: 86-519-8519-1385(Sales)
8519-1089(Admin)

**CHANGZHOU**
(CHANGZHOU HYUNDAI HYDRAULIC
MACHINERY CO., LTD.)
326, HUANGHE WEST ROAD
CHANGZHOU, JIANGSU, CHINA
TEL: 86-519-8302-1726
FAX: 86-519-8302-1710

**TAI'AN**
(HYUNDAI(SHANDONG) HEAVY
INDUSTRIES MACHINERY. CO., LTD.)
YITIANMEN AVENUE MIDDLE
TAIANHIGH-TECHZONE, SHANDONG
CHINA
TEL: 86-538-349-0110
FAX: 86-538-349-0098

**YANGZHONG**
(HYUNDAI HEAVY INDUSTRIES
(CHINA) ELECTRIC CO., LTD.) NO. 9
XIANDAI ROAD, XINBA SCIENTIFIC
AND TECHNOLOGIC ZONE
YANGZHONG, JIANGSU, P.R.C.
ZIP: 212212, CHINA
TEL: 86-511-8842-0666, 0500
0212, 0250
FAX: 86-511-8842-0668,0231

**YANTAI**
(YANTAI HYUNDAI MOON
HEAVY INDUSTRIES CO., LTD.)
No. 333 CHANGJIANG ROAD
YANTAI ETDA, SHANDONG, CHINA
TEL: 86-535-216-5800~1
FAX: 86-535-216-5810, 5830

**SHANGHAI**
(HHI CHINA INVESTMENT CO., LTD.)
ROOM 2002, NORTH TOWER
SHANGHAI STOCK EXCHANGE
BUILDING, #528, PUDONG SOUTH
ROAD, SHANGHAI, CHINA
TEL: 86-21-6880-0808
(ARS 201~203,208)
FAX: 86-212-6880-0608

**SHANGHAI**
(HYUNDAI FINANCIAL LEASING
CO., LTD.) ROOM 3301, CHINA
MERCHANTS TOWER
#161 EAST LU JIA ZUI ROAD
SHANGHAI, CHINA (200120)
TEL: 86-21-6888-0505
FAX: 86-21-5876-4027

**SHANGHAI**
(GRAND CHINA HYUNDAI SHIPPING
CO., LTD.) 8F YOU YOU INTERNATIONAL
PLAZA, NO.76 PUJIAN ROAD
PUDONG SHANGHAI, 200127
TEL: 86-21-5881-4784
FAX: 86-21-5881-4744

**PUNE**
(HYUNDAI CONSTRUCTION
EQUIPMENT INDIA PVT., LTD.)
PLOT NO. A-2, MIDC CHAKAN
PHASE - II, VILL.-KHALUMBRE.
PUNE 410 501, INDIA
TEL: 91-21-3530-1700
FAX: 91-21-3530-1712

### AFRICA

**ABUJA**
(HYUNDAI HEAVY INDUSTRIES CO.
NIGERIA LTD.) 4th FLOOR OAKLAND
CENTER, PLOT 2940, AGUIYI IRONSI
STREET, MAITAMA, ABUJA, NIGERIA
TEL: 234-807-276-9160

**ABUJA**
(NIKORMA TRANSPORT LTD.)
NO.7A LAKE CHAD CRESCENT
MAITAMA, ABUJA, NIGERIA
TEL: 234-9-460-85503
234-803-775-6984 (M.P)

# AFFILIATED COMPANIES

| | HYUNDAI MIPO DOCKYARD CO., LTD. | HYUNDAI SAMHO HEAVY INDUSTRIES CO., LTD. |
|---|---|---|
| Business Line | Shipbuilding, Conversion & Repairs | Shipbuilding |
| Major Shareholder | Hyundai Samho Heavy Industries Co., Ltd. (46.03%) | Hyundai Heavy Industries Co., Ltd. (94.92%) |
| Paid-In Capital | KRW 100,000 million | KRW 200,000 million |

| | HYUNDAI OILBANK CO., LTD. | HYUNDAI FINANCE CORP. |
|---|---|---|
| Business Line | Petroleum Refining | Corporate Financing, Management Consulting |
| Major Shareholder | Hyundai Heavy Industries Co., Ltd (91.13%) | Hyundai Heavy Industries Co., Ltd. (67.49%) |
| Paid-In Capital | KRW 1,225,412 million | KRW 91,500 million |

| | HYUNDAI VENTURE INVESTMENT CORP. | MIPO ENGINEERING CO., LTD. |
|---|---|---|
| Business Line | Venture Fund Investments | Ship Design & Engineering |
| Major Shareholder | Hyundai Finance Corp. (68.38%) | Hyundai Mipo Dockyard Co., Ltd (100%) |
| Paid-In Capital | KRW 30,000 million | KRW 1,400 million |

| | HYUNDAI FUTURES CORP. | WÄRTSILÄ-HYUNDAI ENGINE CO., LTD. |
|---|---|---|
| Business Line | Overseas Futures & Options Brokerage | Manufacturing of Dual-Fuel Engines |
| Major Shareholder | Hyundai Finance Corp. (65.22%) | Hyundai Heavy Industries Co., Ltd. (50%) |
| Paid-In Capital | KRW 23,000 million | KRW 67,860 million |

| | ULSAN HYUNDAI FOOTBALL CLUB | HYUNDAI HEAVY MATERIAL SERVICE |
|---|---|---|
| Business Line | Professional Sports Club | Manufacturing of Ship Components |
| Major Shareholder | Hyundai Heavy Industries Co., Ltd. (100%) | Hyundai Heavy Industries Co., Ltd. (100%) |
| Paid-In Capital | KRW 14,000 million | KRW 148,000 million |

| | KOMAS | HI INVESTMENT AND SECURITIES |
|---|---|---|
| Business Line | Shipping | Securities Services |
| Major Shareholder | Hyundai Heavy Industries Co., Ltd. (100%) | Hyundai Mipo Dockyard Co., Ltd. (83.24%) |
| Paid-In Capital | KRW 3,772 million | KRW 175,692 million |

| | HI ASSET MANAGEMENT | HOTEL HYUNDAI |
|---|---|---|
| Business Line | Securities Services | Hospitality |
| Major Shareholder | Hyundai Mipo Dockyard Co., Ltd. (7.57%), HI Investment and Securities (92.41%) | Hyundai Heavy Industries Co., Ltd. (100%) |
| Paid-In Capital | KRW 34,408 million | KRW 400 million |

| | TAEBAEK WIND POWER | HYUNDAI CORPORATION |
|---|---|---|
| Business Line | Wind Power | Trading |
| Major Shareholder | Hyundai Heavy Industries Co., Ltd. (35%) | Hyundai Heavy Industries Co., Ltd. (22.36%) |
| Paid-In Capital | KRW 10,050 million | KRW 111,649 million |

| | HC PETROCHEM | MUJU WIND POWER |
|---|---|---|
| Business Line | Manufacturing of Petrochemicals | Wind Power |
| Major Shareholder | Hyundai Oilbank Co., Ltd (50.00%) | Hyundai Heavy Industries Co., Ltd (45.00%) |
| Paid-In Capital | KRW 357,000 million | KRW 11,400 million |

| | CHANGJUK WIND POWER | HYUNDAI-AVANCIS |
|---|---|---|
| Business Line | Wind Power | Solar Module Manufacturing & Sales |
| Major Shareholder | Hyundai Heavy Industries Co., Ltd (43.00%) | Hyundai Heavy Industries Co., Ltd (50.00%) |
| Paid-In Capital | KRW 400 million | KRW 80,000 million |

# CORPORATE DATA

**Head Office**
#1, Jeonha-dong, Dong-gu
Ulsan 682-792, Republic of Korea
Tel: 82-52-202-2114
Fax: 82-52-202-3432

**Seoul Office**
Hyundai Building, 14th Floor
Gye-dong Jongno-gu
Seoul 100-793, Republic of Korea
Tel: 82-2-746-4603
Fax: 82-2-746-4662

**Date of Establishment**
December 28, 1973

**Paid-in Capital**
KRW 380 billion

**Common Stock**
76,000,000 shares

**Number of Employees**
24,222

**General Shareholders' Meeting**
March 11, 2011

**Listing**
Listed on the Korea Stock Exchange in August 1999.
KSE Ticker: 009540

**Investor Relations Team**
General Manager: Kwon Ki-hyeong
(822-746-4729, kihkwon@hhi.co.kr)

Manager: Son Sung-min
(822-746-4728, smson@hhi.co.kr)

Associate Manager: Kim Jong-yoon
(822-746-4546, withjong96@hhi.co.kr)

Associate Manager: Choi Jung-in
(822-746-4775, junginchoi@hhi.co.kr)

Assistant Manager: Min Byung-kee
(822-746-4583, byungkeemin@hhi.co.kr)

Oum Yi-jung
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HYUNDAI
HEAVY INDUSTRIES CO.,LTD.